Faculty of Business

Executive Remuneration of Listed Family Companies in Malaysia

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DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made. This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

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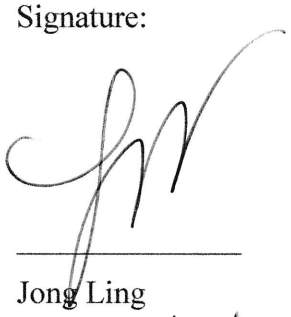

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Abstract

Executive remuneration around the world has risen exponentially and grabbed the attention of the public, academia, policy makers and regulators. This thesis focuses on family companies in view of their pervasiveness and significant economic contribution to a country. The objectives of this study are to investigate the extent of executive remuneration and its determinants in Malaysian listed family companies. By employing agency theory as the theoretical framework, this research examines the influence of family participation on board, corporate governance mechanisms and institutional ownership on executive remuneration.

The sample of this study comprises a total of 279 companies listed on the Main Board of Bursa Malaysia that fulfilled the selection criteria. The five-year study period from 2010 to 2014 provides a total of 1,395 firm-year observations and allows the assessment of the influence of the revised Malaysian Code on Corporate Governance (MCCG) 2012 on executive remuneration. Multiple regression model is employed to examine the association between explanatory variables and executive remuneration. Random effects estimation is used for the panel analysis of the five-year longitudinal data.

This study reports that the executive remuneration of Malaysian listed family companies increases significantly from 2010 to 2014 although the corporate governance landscape has been further enhanced in 2012. The multiple regression results show that there is a statistically significant and positive association between the CEO-chairman role duality and executive remuneration. Independent non-executive directors exert a significant negative influence on executive remuneration. Tenure of independent non-executive directors, remuneration committee, and institutional ownership do not have any influence on executive remuneration. Although both family CEOs and family directors are not statistically significant, family ownership shows a statistically significant and positive association with executive remuneration. Executive remuneration is statistically significant and positively associated with the board size, firm size, lagged firm performance and growth opportunities; and negatively associated with the firm leverage.

The findings reveal that the board of directors and institutional investors suggested by the agency theory advocates could not effectively govern the executive remuneration and ameliorate the Type II agency conflict in Malaysian family companies. This study documents that family CEO exacerbates the Type II agency conflict while non-family CEO mitigates it. The results from this study have wide-ranging implications for Malaysian policy makers and regulators in assessing and implementing a sound corporate governance framework to mitigate the possible expropriation of minority shareholders by the controlling shareholders in family companies. The longitudinal analysis of executive remuneration in this thesis should allow a better assessment of the alignment of interests between the controlling and minority shareholders in family companies.

List of Abbreviations

AGM	Annual general meeting
ANOVA	Analysis of variance
BS	Board size
CA	Companies Act 1965
CCM	Companies Commission of Malaysia
CEO	Chief executive officer
CG	Corporate governance
DIS	Domestic institutional shareholdings
EXREM	Executive remuneration
FCEO	Family CEO
FCGG	High Level Finance Committee on Corporate Governance
FD	Proportion of family directors on board
FDRC	Proportion of family directors on remuneration committee
*FD*FCEO*	Interaction effect between the family directors on board and family ownership
*FCEO*FO*	Interaction effect between the family CEO and family ownership
FDI	Foreign direct investment
FEM	Fixed effects model
FEX	Proportion of family executive directors over the total number of executive directors on board
FIC	Foreign Investment Committee
FIS	Foreign institutional shareholdings
FO	Family ownership
GDP	Gross domestic product
GLS	Generalised least squares
ID	Proportion of independent non-executive directors on board
IDRC	Proportion of independent non-executive directors on remuneration committee
IDT	Average tenure of the independent non-executive directors on board
IDT#	Proportion of independent non-executive directors whose tenure exceeded nine years over the total number of independent non-executive directors on board
*ID*DIS*	Interaction effect between the independent non-executive directors and domestic institutional shareholdings
*ID*FIS*	Interaction effect between the independent non-executive directors and foreign institutional shareholdings
IS	Total institutional shareholdings (including domestic and foreign)
KLSE	Kuala Lumpur Stock Exchange
LEV	Ratio of total debts to total assets
LNEXREM	Natural logarithm of executive remuneration
LNTA	Natural logarithm of total assets

LRs	Listing Requirements of Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange)
MAX.	Maximum
MCCG	Malaysian Code on Corporate Governance
MCII	Malaysian Code for Institutional Investors
MICG	Malaysian Institute of Corporate Governance
MIN.	Minimum
MSWG	Minority Shareholder Watchdog Group
MV	Ratio of market value to book value of equity
NDP	National Development Policy
NVP	National Vision Policy
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary least squares
PLC	Public listed company
PP	Probability plot
RD	CEO-chairman role duality
REM	Random effects model
RM	Ringgit Malaysia
ROA	Return on assets
ROA(-1)	Lagged return on assets
ROB	Registry of Business
ROC	Registry of Companies
ROE	Return on equity
ROSC	Report on the Observance of Standards and Codes
SC	Securities Commission Malaysia
SCA	Securities Commission Act
SIA	Securities Industry Act
STD. DEV.	Standard deviation
SRE	Standardised Residual Value
UK	United Kingdom
US	United States
VIF	Variance inflation factor

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Works Related to This Thesis

Published Journal Paper

1. Title: Inside the Family Firms: the Impact of Family and Institutional Ownership on Executive Remuneration
   Journal: Cogent Economics and Finance
   Published date: 24 January 2018
   doi: 10.1080/23322039.2018.1432095

Paper Submitted for Journal Publication Consideration

1. Title: Board Governance on Executive Remuneration: Substance or Form
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Conference Papers/ Proceedings

1. Title: Ownership Structure and Executive Remuneration: An Empirical Study of Malaysian Listed Family Firms
   Conference: APJAE Symposium on Environmental, Social and Governance Issues in the Asia Pacific Region
   Organiser: Asia-Pacific Journal of Accounting and Economics/ City University of Hong Kong
   Date: 3 – 5, December 2014

2. Title: Whose Voice in Determining Executive Remuneration in Malaysian Listed Family Firms?
   Conference: 17th FOURA Conference on Accounting in Developing Economies: Ethical, Regional and Contextual Issues
   Organiser: Asian Academic Accounting Association
   Date: 21 – 22, November 2016

3. Title: Board Composition and Executive Directors' Remuneration in Malaysian Listed Family Companies
   Conference: AFAANZ Conference
   Organiser: Accounting and Finance Association of Australia and New Zealand
   Date: 2 – 4, July 2017

Oral Presentation at Colloquium

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   Colloquium: North Borneo Research Colloquium 2016
   Organiser: Curtin University Malaysia and University Malaysia Sarawak (UNIMAS)
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Poster Presentation

1. Title: Executive Remuneration of Family Firms in Malaysia
   Event: 2014 HDR Colloquium co-organised by Curtin University Malaysia and University Malaysia Sarawak (UNIMAS)

2. Title: Executive Remuneration of Listed Family Firms in Malaysia
   Event: 2016 Curtin University Malaysia Open Day

CHAPTER ONE: INTRODUCTION

1.0 Background and Motivation of the Study

Executive remuneration is a controversial issue and has attracted widespread attention from the general public, academia, practitioners, regulators, institutional investors, and media (Barontini and Bozzi 2011; Croci, Gonenc and Ozkan 2012; McCahery, Sautner and Starks 2016). Most of the studies focus on CEO pay[1] and are conducted in the context of developed countries such as the United States and the United Kingdom (Finkelstein and Boyd 1998; Gomez-Mejia, Larraza-Kintana and Makri 2003; Fahlenbrach 2009; Zorn et al. 2017). The onset of the 2008 global financial crisis brings executive remuneration further into the social limelight. Apart from the CEO pay, directors' remuneration has started to receive attention from academia and media in the 2000s (Brick, Palmon and Wald 2006; Basu et al. 2007; Abdul-Wahab and Abdul-Rahman 2009; Dah and Frye 2017).

In a seminal study, Jensen and Murphy (1990) put forward that an optimal remuneration contract could align the interests of executive directors and shareholders and mitigate the classical principal-agent problem of a company. The remuneration packages should be aligned with the long-term business objectives and commensurate with directors' responsibilities and expertise. However, it is ironic to find out that the main culprits behind several corporate scandals and collapses are the board chairman, CEO and executive directors, and these companies include big names such as Enron, WorldCom, and Lehman Brothers. Take Enron's scandal as an example, prior to its bankruptcy in 2002, the total directors' remuneration in 2001 is USD380,619 and ranks the seventh highest remuneration payout in the United States (Abelson 2001). The 2008 global financial crisis precipitated by the excessive risk-taking and pay motives of the top executives of major financial institutions (Erkens, Hung and Matos 2012; DeYoung, Peng and Yan 2013) further pinpoints the ineffectiveness of remuneration packages in aligning the interests of executive directors and shareholders.

[1] CEO is just one of the executive directors. The examination of the overall remuneration of executive directors is largely ignored in the literature.

The criticism on executive remuneration is fuelled by the escalating pay scales of top executives over the years. In the United Kingdom, Li and Young (2016) report that the wage packages of FTSE 350's chief executives rise by 82% over 13 years, but there is a negligible link between the pay and fundamental value generation for the investors. Besides, about two-thirds of FTSE 100's CEOs are paid more than 100 times the average salary in the country (The Equality Trust 2017). In the United States, the remuneration of CEOs grow faster than that of the highly paid employees over the last three decades; the CEO-to-employee remuneration ratio is 20-to-1 in 1965, peaks at 376-to-1 in 2000 and is 303-to-1 in 2014 (Mishel and Davis 2015). Dah and Frye (2017), by using the data from ExecuComp database, report that the directors are over-remunerated; and the overpaid directors are associated with the reduced pay-for-performance sensitivity. They argue that excessive remuneration is a sign of board entrenchment in the US companies.

Similar scenarios are observed in the developing countries. For instance, in India, there is a massive pay gap between the top executives and employees. The remuneration packages of top executives are approximately 1,200 times of their employees' salaries in the companies (The Economic Times 2017). In South Africa, Deloitte (2017) finds out that the CEOs of the top 100 JSE companies are paid about 500 times more than what the ordinary employees earned, and the remuneration of these CEOs underperform shareholders' value.

In the Malaysian context, the average remuneration per executive director has been on the rise in recent years: RM1,1164,727 in 2013; RM1,347,649 in 2014; and RM1,539,000 in 2015 (Minority Shareholder Watchdog Group 2015, 2014b, 2013b). There is a significant disconnection between the director remuneration and firm performance (Immanuel 2015; Focus Malaysia 2014; Abdullah 2006). In addition, the pay disparity between the executive directors and ordinary employees is huge. For instance, in 2015, the average remuneration per executive director is RM1,539,000 (Minority Shareholder Watchdog Group 2015), while the average salary of ordinary employee is RM27,744 (Department of Statistics Malaysia 2015). Furthermore, the remuneration packages of the CEOs from some family companies are substantially higher than the average director remuneration. For instance, in 2013, the board

chairman cum CEO of Genting Berhad receives around RM136 million and the chairman of IOI Corporation Berhad is paid approximately RM52 million (News Straight Times 2014). The remuneration package of the former is more than 4000 times of the national income per capita of RM33,010 (Economic Planning Unit 2013), while the latter is about 1575 times.

Overall, several corporate scandals and collapses, the outbreak of 2008 global financial crisis, and the insignificant association between executive remuneration and firm performance highlight the failure of remuneration contract as a governance mechanism to align the interests of executive directors and shareholders. Besides, the escalating executive remuneration over the years and the huge pay disparity between the top executives and ordinary employees have stoked the public outrage (Thompson 2009). Consequently, executive remuneration is under the close scrutiny of the media, academia, investors, policy makers, and regulators around the world.

Bruce, Buck, and Main (2005) document that institutions [2] affect executive remuneration. It has been increasingly recognised that institutional differences are important in explaining the corporate decisions and actions (Jackson and Deeg 2008). Most scholars in the cross-national comparative corporate governance posit that institutions affect the corporate governance practices (Aguilera and Jackson 2010). According to Yoshikawa, Rasheed, and Brio (2010), the determinants of executive remuneration are affected by institutional norms, corporate governance practices and legal restrictions. Kowalewski, Talavera, and Stetsyuk (2010) maintain that the findings of the studies conducted in the context of Western countries may not be applicable to the countries with different legal systems and economic environments. Further, Essen, Oosterhout, and Carney (2012) claim that Asian companies operate in an institutional context where many of the key assumptions of the agency theoretical view of corporate boards may not hold.

Malaysia is a multiracial country, and the spheres of politics and races are inextricably intertwined. The Malaysian companies operate in a unique and distinctive environment:

[2] Institutions are defined as the rules and norms that guide individuals, organisations and markets in interacting with each other.

multiracial, multicultural, cronyism-inclined, rent-seeking, and high power distance (Gomez and Jomo 1999; Johnson and Mitton 2003; Satkunasingam and Shanmugam 2006; The Iclif Leadership and Governance Centre 2014). Unlike the strong shareholders' right protection in the developed countries, the World Bank (2012) comments that Malaysia's Companies Act 1965 still contains gaps with regard to the shareholders' rights even after several amendments. Substantial transactions including large related party transactions do not require majority approval from the shareholders. Besides, the minority shareholders have little influence on board selection, decisions on share issuance, and directors' pay (The World Bank 2012). Corporate governance in Malaysia is still evolving, particularly concerning the protection of the minority's right. Most of the public listed companies in Malaysia are characterised by concentrated ownership structure and significant participation of controlling shareholders in the management (Carney and Child 2013; Satkunasingam and Shanmugam 2006), which give rise to agency conflicts between the controlling shareholders and minority shareholders. This unique institutional setting provides an appealing context for this study. There are empirical and literature gaps regarding the effectiveness of corporate governance mechanisms suggested by the agency theory advocators in governing executive remuneration in the context of Malaysia.

This thesis focuses on family companies in view of their pervasiveness around the world. Specifically, family companies account for approximately one-third of the S&P 500 in the United States (Anderson and Reeb 2003) and about 44.29% of listed companies in the Western European countries[3] (Faccio and Lang 2002). Based on the studies by Claessens, Djankov, and Lang (2000) and Carney and Child (2013) on nine East Asian countries[4], the most common form of corporation is family business. Fan et al. (2011) document that family businesses are a crucial source of private wealth creation in Asia and contribute approximately one-third of the Asian GDP. In Malaysia, family companies account for about 44.70% of listed companies (Carney and Child 2013; Ibrahim, Abdul-Samad and Amir 2008) and contribute around 67.00% of

[3] The percentages of family companies of each Western European country examined by Faccio and Lang (2002) are shown in Appendix 1.1.

[4] The nine countries are Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand. The percentages of family companies of each East Asian country examined by Claessens, Djankov, and Lang (2000) and Carney and Child (2013) are shown in Appendix 1.2.

nominal GDP (Fan et al. 2011). According to Credit Suisse (2017), Malaysia ranks the seventh globally in terms of the number of family-owned companies. Despite the prevalence and significant economic contribution of family companies, there are limited studies on the executive remuneration of family companies in the Malaysian context. The executive remuneration in family companies has to be studied extensively as there is a probability that the controlling family shareholders would misappropriate funds via executive remuneration at the expense of minority shareholders. This often gives rise to the conflict of interest between the controlling shareholders and minority shareholders.

Family companies are generally considered less vulnerable to the classical agency problem between the shareholders and management, or known as Type I agency conflict (Jensen and Meckling 1976; Bhaumik and Gregoriou 2010). The concentrated ownership of a family entails a different agency conflict. Family companies face the agency problem between the controlling family shareholders and minority shareholders, or known as Type II agency conflict (Bhaumik and Gregoriou 2010; Villalonga and Amit 2006). Specifically, a more severe problem in family companies is the extraction of private benefits by the controlling family shareholders for themselves. The controlling family shareholders may use their dominant positions in the companies to expropriate[5] wealth at the expense of minority shareholders via several ways, such as related party transactions, special dividends, excessive perquisites and other tunneling[6] activities (Johnson et al. 2000; Cesari 2012; Liew, Alfan and Devi 2014; Zhang et al. 2017).

Most of the prior studies in the Malaysian context measure the expropriation of minority shareholders by way of related party transactions (Hamid, Ting and Kweh 2016; Liew, Alfan and Devi 2014; Mustafa, Latif and Taliyang 2011). Liew, Alfan, and Devi (2014) report that the probability of expropriation via related party transactions in the Malaysian listed family companies is higher than that in non-family

[5] Expropriation is a process of which one uses the controlling power to maximise one's own welfare or benefits and redistribute wealth from others (Claessens et al. 1999).

[6] Tunneling refers to the extraction or transfer of resources out of a company by the controlling shareholders who are typically also the top managers. Please refer to Johnson et al. (2000) for a detailed discussion about tunnelling.

companies (32.85% versus 14.83%). Different from past studies, this study posits that the controlling family shareholders of Malaysian listed companies can expropriate the minority shareholders via executive remuneration.

The mainstream literature most often explains the accounting policy choices by using the agency theory tenet (Jensen and Murphy 1990; Elston and Goldberg 2003; Sapp 2008; Theeravanich 2013). In this study, agency theory provides an ideal conceptual framework for examining executive remuneration of the Malaysian listed family companies. The cornerstone of the classical agency theory is that the interests of principals (shareholders) and agents (management) tend to diverge. Jensen and Meckling (1976) postulate that the separation of ownership and control of a company provides the management with the incentive to serve their personal interests at the expense of shareholders' interests. According to Jensen and Murphy (1990), remuneration design is viewed as a contractual remedy to mitigate the agency problem between the shareholders and management. Nonetheless, Bebchuk and Fried (2004) criticise and refute the former view; they posit that the management in publicly traded companies without a controlling shareholder could use their substantial power to extract remuneration more favourably than they could obtain under an arm's length bargaining with the shareholders. The remuneration payout may not be aligned with the firm performance. The empirical findings of the pay-performance link are inconclusive. The positive association supports the view of Jensen and Murphy (1990) that remuneration is a tool to align the managerial interests with that of the shareholders (Rampling, Eddie and Liu 2013; Gregg, Jewell and Tonks 2012; Kato and Long 2006; Conyon and Peck 1998). On the other hand, the negative association supports the view of Bebchuk and Fried (2004) that the management could use their substantial power to extract higher remuneration for themselves (Brick, Palmon and Wald 2006; Abdullah 2006; Core, Holthausen and Larcker 1999).

Due to the inconsistency in findings, extant studies have moved beyond the pay-performance concept and suggested other potential factors influencing executive remuneration. Corporate governance has been identified as a complementary factor in influencing the executive remuneration; for instance, the board independence, remuneration committee, board size, to name a few (Kuo and Yu 2014; Yatim 2013;

Ozkan 2007). The role of corporate governance in addressing agency problem has been a long-standing interest (Kumar and Zattoni 2017). By using American companies and Japanese companies, Core, Holthausen, and Larcker (1999) and Basu et al. (2007) respectively report that the top executive remuneration is higher in the companies with weaker corporate governance. They postulate that the companies with weaker corporate governance are saddled with greater agency problems, as reflected in the high remuneration regardless of firm performance. Yoshikawa, Rasheed, and Brio (2010) as well as Kuo and Yu (2014) contend that the studies of executive remuneration are mainly confined to the US context.

The extant studies and agency theory advocators suggest the board of directors and institutional investors as the mechanisms to govern executive remuneration (Hartzell and Starks 2003; Méndez, García and Pathan 2017; Kumar and Zattoni 2017). The board of directors of a company is appointed by the shareholders to act on their behalf and its responsibilities include, among others, supervising executives and establishing executive remuneration (Zattoni and Cuomo 2010; Brick, Palmon and Wald 2006). The role of governing executive remuneration lies within the purview of independent or non-executive directors. Past studies show a negative association between independent or non-executive directors and executive remuneration, indicating that they play a governance role in restraining executive remuneration (Ghosh 2006; Lim and Yen 2011). In addition, prior studies document that institutional ownership is negatively associated with executive remuneration, suggesting that the institutional investors play an activist role in monitoring the remuneration packages of the investee companies (Hartzell and Starks 2003; Abdul-Wahab and Abdul-Rahman 2009).

Generally, the empirical studies of the association between corporate governance mechanisms (board of directors and institutional investors) and executive remuneration are based on the conflict between the shareholders and management or commonly known as Type I agency conflict. This study attempts to make a theoretical contribution by premising on Type II agency conflict between the controlling shareholders and minority shareholders to examine the executive remuneration in family companies. Despite a wealth of research on CEO and directors' remuneration, little is known about its determinants in family companies (Gomez-Mejia, Larraza-

Kintana and Makri 2003). When a family controls a company, the governance decisions are in the hand of family (Castro, Aguilera and Crespí-Cladera 2017).

The foregoing discussions outline the context and purpose of this study. The next sections detail the research gaps and problem statement leading to the formulation of research questions for this thesis.

1.1 Research Gaps

Most of the family business studies centre on the firm profitability and valuations (Mishra, Randøy and Jenssen 2001; Anderson and Reeb 2003; Maury 2006; Andres 2008; Chiung-Wen et al. 2009; Liu, Yang and Zhang 2012), succession (Burkart, Panunzi and Shleifer 2003; Royer et al. 2008; Daspit et al. 2016), socio-emotional wealth (Berrone et al. 2010; Zellweger and Dehlen 2012), to state a few. There are only a few empirical studies examining the executive remuneration of family companies (Gomez-Mejia, Larraza-Kintana and Makri 2003; Croci, Gonenc and Ozkan 2012). Massis et al. (2012), based on a comprehensive review of 251 pieces of the most cited literature on family business published in 33 journals between 1996 and 2010, report that 73% of the articles are in the American and European contexts. This implies a western skew in the current knowledge about family companies and presents a research gap in the emerging markets or developing countries[7]. Massis et al. (2012) and Sharma and Chua (2013) call for more in-depth research of family businesses in the emerging markets and under-represented regions such as Asia, Africa, and Latin America. The heterogeneity of institutions and environments in different capital markets and countries offer research opportunities to seek a deeper understanding of family companies. It is important to ascertain whether the findings based on the developed markets can be generalised to the emerging markets so as to contribute to the global knowledge in this field of study.

[7] There are few studies pertinent to family companies in the contexts of developing countries, but they are not examining executive remuneration. Instead, they examine the corporate management of Thai family companies (Suehiro and Wailerdsak 2004), firm performance of Philippine family companies (Diyanti, Widyawati and Husnah 2015) and Indonesian family companies (Muhammad and John 2011).

Malaysia is chosen for this study for several reasons. Firstly, it is economically different from the developed countries such as the United Kingdom and the United States where most of the studies on executive remuneration, corporate governance, and family companies are carried out. Malaysia is a developing country. In 2016, the GDP of Malaysia is USD296.36 billion; in comparison, the GDPs of the United States and the United Kingdom are USD18.57 trillion and USD2.62 trillion respectively (The World Bank 2016). It is ambiguous whether the factors influencing executive remuneration in the developed countries and Malaysia are the same.

Secondly, Malaysia is a land of many races; culturally distinct from the developed and some other developing countries. Cultural difference is important because the traditions of a nation are instilled in its people. The communities of Malaysia consist of three main ethnic groups, namely Bumiputera[8], Chinese and Indian. Different ethnic groups have different cultural practices and uphold different norms and values (Haniffa and Cooke 2002). The Malaysians are characterised as high power distance (Haniffa and Cooke 2002). According to The Iclif Leadership and Governance Centre (2014), Malaysia scores the highest in power distance with a rating of 100 among 18 Asian countries[9]. Satkunasingam and Shanmugam (2006) document that the shareholders hardly take legal actions against a company's directors due to the cultural factor in Malaysia.

Thirdly, Malaysian companies operate in a racially discriminated economy as a result of the government's initiatives favouring Bumiputera (Jomo 2004). Bumiputera have been given, among other privileges, priorities for large government contracts, increased access to capital, opportunities to buy assets that have been privatised, and other subsidies (Johnson and Mitton 2003). Consequently, Malaysian companies that are not government-linked or politically-connected have to build closer ties with the government officials or bribe them in order to obtain businesses and projects for business survival (Gomez and Jomo 1999). In the context of family companies, Carney

[8] The Malays and indigenous peoples are collectively known as Bumiputera (Son of Soil).

[9] The 18 Asian countries surveyed include Australia, Bangladesh, Cambodia, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.

and Child (2013) report that 22% of the Malaysian listed family companies have political ties. Their findings reveal the incidence of crony capitalism among the Malaysian listed family companies.

Succinctly, Malaysian companies operate in a unique and distinctive environment. The differences in terms of the underlying economy, institutional environment, cultural, and societal values offer the research opportunity to empirically examine the executive remuneration of the Malaysian listed family companies. The culture of high power distance in Malaysia casts doubt pertaining to the governance function of independent directors. They may be less willing to question the remuneration packages of executive directors, particularly those related to the controlling shareholders who have a higher ranking position in the company. On this premise, it is probable that such culture would obstruct the board governance on executive remuneration in family companies.

The theoretical justification for choosing Malaysia is that prior studies have identified expropriation of minority shareholders by the controlling shareholders as a severe corporate governance issue in Malaysia and other East Asia countries; this is due to the high level of ownership concentration and significant involvement of the controlling shareholders in the management of the public listed companies (Young et al. 2008; Claessens and Yurtoglu 2013; Liew, Alfan and Devi 2014). The most common controlling shareholder of Malaysian listed companies is the family (44.7%), followed by the government (33.5%) (Carney and Child 2013). Claessens and Yurtoglu (2013) note that family controlling shareholders are largely involved in the management of family companies. As such, this institutional environment provides an avenue to study the potential conflict of interests between the controlling family shareholders and minority shareholders in Malaysian listed family companies via executive remuneration, which gives rise to the Type II agency conflict.

A good corporate governance framework can be an instrument to mitigate the expropriation issue and principal-principal conflict. Sarbah, Quaye, and Affum-Osei (2016) maintain that there is a general lack of understanding of the effective corporate governance principles in family companies. According to Crespí–Cladera and Gispert (2003), the emotional ties of the family shareholders in running the business may affect

the procedures of the best corporate governance practices, lead to showing favouritism towards family members, and provide the controlling family shareholders with excessive control over the business; the controlling family shareholders will then reap the benefits to the detriment of minority shareholders.

In Malaysia, family companies account for approximate 44.70% of public listed companies (Carney and Child 2013) and 67.00% of national nominal GDP (Fan et al. 2011). As such, the corporate governance of Malaysian listed family companies has to be studied extensively in view of their important contribution to the nation's economic growth. Sound corporate governance practices are essential to protect the minority shareholders and strengthen investors' confidence (Rezaee 2012). Besides, a strong corporate governance landscape is crucial to attract the inflow of foreign capital funds into Malaysia. The corporate governance failures of family companies could produce a far-reaching repercussion in foreign investment and potentially impede Malaysia's economic growth.

Prior empirical studies examining the influence of corporate governance on executive remuneration in the Malaysian context include both family and non-family companies in their sample sets (Yatim 2013; Abdullah 2006). The statistical results are generalised across overall companies. Besides, these prior studies employ single-year analysis, which limits the scope of evaluation. Different from the past studies, this study employs longitudinal data from 2010 to 2014 (inclusive of starting and ending years), which allows the panel data analysis, and provides a better understanding of the extent of executive remuneration and its determinants in family companies.

Over the five-year period, this study selects two years pre- and post- 2012 in order to provide insight into the efficacy of the revised Malaysian Code on Corporate Governance (MCCG) 2012 in governing executive remuneration in Malaysian listed family companies. The MCCG is revised in 2012 after taking into account the changing market dynamics, international developments, and the need to continuously recalibrate and enhance the effectiveness of corporate governance framework (Securities Commission Malaysia 2013). Among others, the key areas that are strengthened in the revised MCCG 2012 include the following: (i) the independence

of independent directors whose tenure should be capped at a cumulative period of nine years; (ii) the separation of the chairman and CEO roles; (iii) the board should establish formal and transparent remuneration policies and procedures to attract and retain directors; the remuneration committee should perform this function; and (iv) the relationship between the company and shareholders (Securities Commission Malaysia 2013). To date, there is a lack of empirical studies that examine the executive remuneration covering the period of the introduction of the revised MCCG 2012. This study makes a timely contribution and fills the gap by investigating the effectiveness of key corporate governance attributes strengthened by the revised MCCG 2012 in governing executive remuneration.

In addition, the Corporate Governance Blueprint 2011 (CG Blueprint 2011) issued by the Securities Commission requires the institutional investors to explain how corporate governance has been adopted as an investment criteria, and the measures they have taken to influence, guide and monitor the investee companies (Securities Commission Malaysia 2011). The Malaysian Code for Institutional Investors 2014 (MCII) is one of the deliverables of the CG Blueprint 2011. The MCII postulates that institutional investors are the major players in the global economy who can exert significant influence over their investee companies. They should be committed to effective corporate governance and consider acting collectively with other investors, where appropriate, to promote good corporate governance (Securities Commission Malaysia and Minority Shareholder Watchdog Group 2014).

The recommendations for institutional investors in MCCG and CG Blueprint as well as the issuance of MCII clearly show that the Malaysian government relies on the institutional investors as an external governance mechanism to enhance the corporate governance practices of listed companies. Notwithstanding this, there are limited studies related to the influence of institutional investors in the context of family companies. This study contributes to the body of knowledge and fills the gap by investigating the influence of institutional investors on the executive remuneration in the Malaysian listed family companies.

Furthermore, in April 2009, the Prime Minister of Malaysia announces the disbandment of the Foreign Investment Committee (FIC), repeal of FIC Guidelines, and liberalisation of certain restrictions in order to stimulate economic growth and encourage foreign investments (Hill, Tham and Zin 2012). Covering the period from 2010 to 2014, this study provides insights into the participation of foreign institutional investors in Malaysian listed family companies, immediate after the disbandment of FIC and the repeal of FIC Guidelines, as well as provides timely empirical evidence pertaining to the governance role of the foreign institutional investors.

Past studies on the effects of various corporate governance mechanisms typically assume that these mechanisms operate independently. For instance, Conyon and Peck (1998) examine the influence of non-executive directors and remuneration committee on the top management remuneration without taking the ownership structure of companies into consideration; Dong and Ozkan (2008) examine the association between institutional ownership and director remuneration without taking the board composition into account; Croci, Gonenc, and Ozkan (2012) examine the association between the institutional investors and CEO remuneration without including the board characteristics in their model. Rediker and Seth (1995) point out the fact that the studies on a single corporate governance mechanism often neglect the broader linkages of various governance mechanisms and their joint impact on various governance issues. Agrawal and Knoeber (1996) suggest that the focus on a single corporate governance mechanism does not detect the interdependence of different mechanisms. Even among different corporate governance mechanisms, Berglöf and Claessens (2006) argue that concentrated ownership may exert an overpowering influence, especially in the countries where the regulatory environment and legal enforcement are weak. On this premise, this study contributes by examining the effects of various corporate governance mechanisms on executive remuneration in the companies with concentrated ownership structure, particularly family companies. Specifically, different corporate governance mechanisms, which are the board of directors and ownership structure, are jointly investigated to examine their influence on the executive remuneration of Malaysian listed family companies

1.2 Problem Statement

A high level of ownership concentration and significant participation of controlling shareholders in the management are the main features of Malaysian listed companies (Liew, Alfan and Devi 2014; Abdul-Rahman 2006), which give rise to conflicts of interest between the controlling shareholders and minority shareholders (Shleifer and Vishny 1997; Young et al. 2008). Shleifer and Vishny (1997) highlight that the controlling shareholders tend to represent their own interests at the expense of minority shareholders. They can use their controlling rights to maximise their own welfare and redistribute wealth from the minority shareholders. Young et al. (2008) identify the expropriation of minority shareholders by the controlling shareholders as a severe corporate governance issue in Malaysia. Accordingly, there is a bona fide concern that the controlling family shareholders design their own pay packages at the expense of minority shareholders (Cheung, Stouraitis and Wong 2005).

In recent years, the Minority Shareholder Watchdog Group (MSWG) receives complaints from the investors regarding excessive directors' remuneration, sales of shares at a premium by the controlling shareholders but not accorded to the minority shareholders, insider trading, and other issues concerning minority rights are being sidestepped (Minority Shareholder Watchdog Group 2014a, 2013a). The Minority Shareholder Watchdog Group (2013a) reports that the remuneration level of a listed company's director skyrockets from RM8.40 million in 2011 to RM33.40 million in 2012, representing a humongous increase of 297.62% in one year. This extravagant executive remuneration constitutes about 14% of the firm's net profit of RM232.7 million for the year. Moreover, in 2013, the annual average income per capita is RM33,010 (Economic Planning Unit 2013), whilst the average remuneration per executive director is RM1,164,727 (Minority Shareholder Watchdog Group 2013b). The huge income disparity demonstrates the excess remuneration paid to the executive directors. Furthermore, two listed family companies pay their CEO and board chairman more than 4000 times and 1575 times respectively the national income per capita in 2013 (News Straight Times 2014).

In addition, the mass media report that the Malaysian listed companies continue to pay high remuneration to their directors despite incurring huge losses (Focus Malaysia

2014; Immanuel 2015). They raise doubts about whether this is justifiable and fair to the minority shareholders. Furthermore, based on the survey done by Malaysian Business on the highest paid directors, 62.14% of companies increase their remuneration payout from 2012 to 2013 despite a drop in the Malaysian economic growth from 5.6% in 2012 to 4.7% in 2013 (The Malaysia Insider 2014). Apparently, the remuneration of Malaysian companies has been on the rise over the years, but it has no substantial linkage with the firm-level and country-level performances.

The executive remuneration of a company draws the attention of its various stakeholders. As mentioned in the preceding paragraph, the general investors are particularly concerned with the excessive directors' remuneration, and they request the Minority Shareholder Watchdog Group (2013a) to take actions in governing the remuneration payout. Besides, McCahery, Sautner, and Starks (2016) report that poor corporate governance and excessive remuneration, among others, are the main concerns of the institutional investors around the world; their intervention in the investee companies is more likely to be driven by corporate governance issues such as excessive executive remuneration rather than firm profitability. Moreover, the remuneration arrangement of the top executives in a company is also of interest to its employees. The sky-high executive remuneration and enormous pay disparity between executives and employees can send vibes throughout the company and weaken the loyalty of subordinate employees (O'Reilly 2007). Whelton (2006) highlights that exaggerated CEO remuneration may contribute towards a feeling that the CEO is a superhuman and not in communion with fellow employees. Mackey (2009) documents that employees really care about the executive remuneration, and a smaller pay gap can bring about greater solidarity and better performance throughout the workplace. Excessive executive remuneration can lead to poor employee morale and resentment (Whelton 2006). By and large, the executive remuneration is one of the major concerns of different stakeholders of a company, including policy makers and regulators, employees, general and institutional investors; hence, it warrants a closer scrutiny.

This thesis focuses on the family companies in view of their ubiquity and significant economic contribution, yet potential to expropriate minority shareholders via excessive remuneration. Specifically, this study examines the extent of executive

remuneration of listed family companies from 2010 to 2014, during which there is a second revision made to the Malaysian Code on Corporate Governance in 2012. Besides, this study investigates the influence of (i) family participation on board, (ii) corporate governance mechanisms, and (iii) institutional ownership on the executive remuneration of family companies. This research is distinctive in the sense that it contributes from the perspective of a developing country and premises on the Type II agency conflict between the controlling and minority shareholders.

1.3 Objectives and Research Questions

The evolutionary process of strengthening Malaysian corporate governance landscape begins after the 1997 Asian financial crisis. The Malaysian Code on Corporate Governance (MCCG) is released in March 2000. Subsequently, it goes through two rounds of revisions in 2007 and 2012 in order to continuously recalibrate and enhance the effectiveness of corporate governance framework. Further, the Corporate Governance Blueprint 2011 (CG Blueprint) is introduced by the Securities Commission Malaysia to engender a shift in corporate governance culture, from mere compliance with rules to one that more fittingly captures the essence of good corporate governance. With the formulation of an industry-driven code for institutional investors, the CG Blueprint 2011 is aimed at enhancing the relationship and trust between the company and its stakeholders.

This study examines the executive remuneration of family companies listed on the Main Board of Bursa Malaysia from 2010 to 2014 in order to provide insights into the influence of the revised MCCG 2012 on executive remuneration.

The main objectives of this longitudinal study are: (i) to evaluate the extent of executive remuneration of listed family companies in Malaysia from 2010 to 2014; (ii) to examine the factors influencing the executive remuneration of listed family companies in Malaysia, and (iii) to investigate the impact of the revised Malaysian Code on Corporate Governance 2012 on executive remuneration of listed family companies in Malaysia.

Accordingly, the following are the research questions pertinent to executive remuneration:

1. What is the extent of executive remuneration of listed family companies in Malaysia from 2010 to 2014?
2. What are the factors influencing the executive remuneration of listed family companies in Malaysia?
3. What is the impact of the revised Malaysian Code on Corporate Governance 2012 on executive remuneration of listed family companies in Malaysia?

This study cross-sectionally examines the influence of (i) family participation on board, (ii) corporate governance mechanisms, and (iii) institutional ownership on the executive remuneration over five separate periods from 2010 to 2014 in order to gain insights for each period. In addition, panel data analysis is undertaken to examine the influence of the abovementioned variables on executive remuneration over the five-year period. The longitudinal study also enables the examination of the trend of executive remuneration over time.

1.4 Importance of the Study

Given the importance of the emerging economies in the global economy, it is necessary to shed light on the effectiveness of corporate governance mechanisms suggested by the agency theory in reining in executive remuneration, in order to contribute to the global knowledge in this field of study. Theoretically, this study is of importance as it examines whether the corporate governance mechanisms suggested by the agency theory advocators to restrain the executive remuneration and mitigate the Type I agency conflict between shareholders and management in widely held companies are able to govern executive remuneration and ameliorate the Type II agency conflict between the controlling shareholders and minority shareholders in family companies that are characterised by the concentrated ownership structure.

Practically, the findings of this study should enable the Securities Commission Malaysia to assess the effectiveness of the MCCG, which mimics the Cadbury Committee Report 1992 and Greenbury Committee Report 1995 of the United Kingdom. It is ambiguous whether the corporate governance mechanisms such as

independent non-executive directors and institutional investors in Malaysian listed family companies are as effective as those in the widely held companies in the developed countries that can restrain the level of executive remuneration.

Expropriation of minority shareholders by controlling shareholders, principal-principal problems or Type II agency conflicts, have been identified as severe corporate governance issues in East Asian countries including Malaysia (Young et al. 2008; Claessens and Yurtoglu 2013; Liew, Alfan and Devi 2014). The findings of this study should enable the Minority Shareholder Watchdog Group to evaluate the possible expropriation of minority shareholders via executive remuneration.

Besides, the findings of this study would be of interest to the general and institutional investors, particularly foreign investors. This study should facilitate their appraisal and evaluation of the corporate governance practices and investor protection in Malaysian listed family companies. The corporate governance inefficacy of family companies may affect their investment preferences and decisions.

1.5 Study Outline

The remainder of the thesis is structured as follows. Chapter Two provides an overview of the development of corporate governance in Malaysia. Chapter Three reviews the literature on agency theory and relevant prior empirical studies leading to the development of hypotheses. Chapter Four presents the research methodology, which encompasses the research design, sample selection, operationalisation of variables, modelling specification and data analysis methods. Chapter Five discusses the descriptive statistics for all of the variables included in this study. Chapter Six reports the statistical analyses of the independent variables hypothesised to be associated with executive remuneration. Chapter Seven discusses the additional analyses conducted. Lastly, Chapter Eight concludes the study with a summary of key findings, implications, assumptions, limitations, suggestions for future studies, and contribution of this thesis.

CHAPTER TWO: CORPORATE GOVERNANCE IN MALAYSIA

2.0 Introduction

Corporate governance is now universally invoked wherever business and finance are discussed. It has attracted a great deal of public interest due to its importance for the enhancement of corporate accountability and transparency. The development of corporate governance is a global occurrence, so it is a multifaceted area covering legal, cultural, ownership and other structure differences.

This chapter is organised as follows. Section 2.1 presents the various definitions of corporate governance that have been predominantly cited by scholars. Section 2.2 discusses the corporate governance mechanisms – internal and external. Section 2.3 presents a number of theories associated with the development of corporate governance. Section 2.4 provides a brief background about Malaysia, while section 2.5 illustrates how corporate governance has evolved in Malaysia. Section 2.6 provides an overview of the effectiveness of the Malaysian Code on Corporate Governance. Section 2.7 provides a brief summary of the chapter.

2.1 Defining Corporate Governance

There is no generally accepted definition of corporate governance. The Cadbury Committee Report's definition of corporate governance has been recognised as the starting point for most reviews of governance. The Cadbury Committee (1992, 14), in paragraph 2.5, defines corporate governance as

> '*…the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meetings*'

In 1999, the Organisation for Economic Co-operation and Development (OECD) publishes its Principles of Corporate Governance upon the request of the OECD Council to develop corporate governance standards and guidelines. The OECD recognises that there is no single model of corporate governance that is applicable to all countries. The OECD Principles represent certain common characteristics that are fundamental to good corporate governance, which include (i) the rights of shareholders, (ii) the equitable treatment of shareholders, (iii) the role of stakeholders in corporate governance, (iv) disclosure and transparency, and (v) the responsibilities of the board. The OECD Principles have become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. They have also been adopted as one of the Financial Stability Board's Key Standards for Sound Financial Systems and form the basis for the World Bank's Reports on the Observance of Standards and Codes in the area of corporate governance (OECD 2015). According to OECD (2015, 9), corporate governance

> *'…involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined'*

In the context of Malaysia, the High Level Finance Committee on Corporate Governance (1999, 52) defines corporate governance as:

> *'…the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interests of other stakeholders…'*

Some common features that characterise corporate governance can be drawn from the above definitions. Essentially, corporate governance is about the system, process and

structure governing the actors of the company for its stakeholders[10]. The above definitions of corporate governance acknowledge the existence and importance of shareholders and various stakeholders. These definitions illustrate corporate governance is concerned with both internal control such as the board structure, and external aspects such as the relationship with shareholders and stakeholders. It provides the mechanisms through which corporate objectives could be set, monitored and achieved.

2.2 Corporate Governance Mechanisms

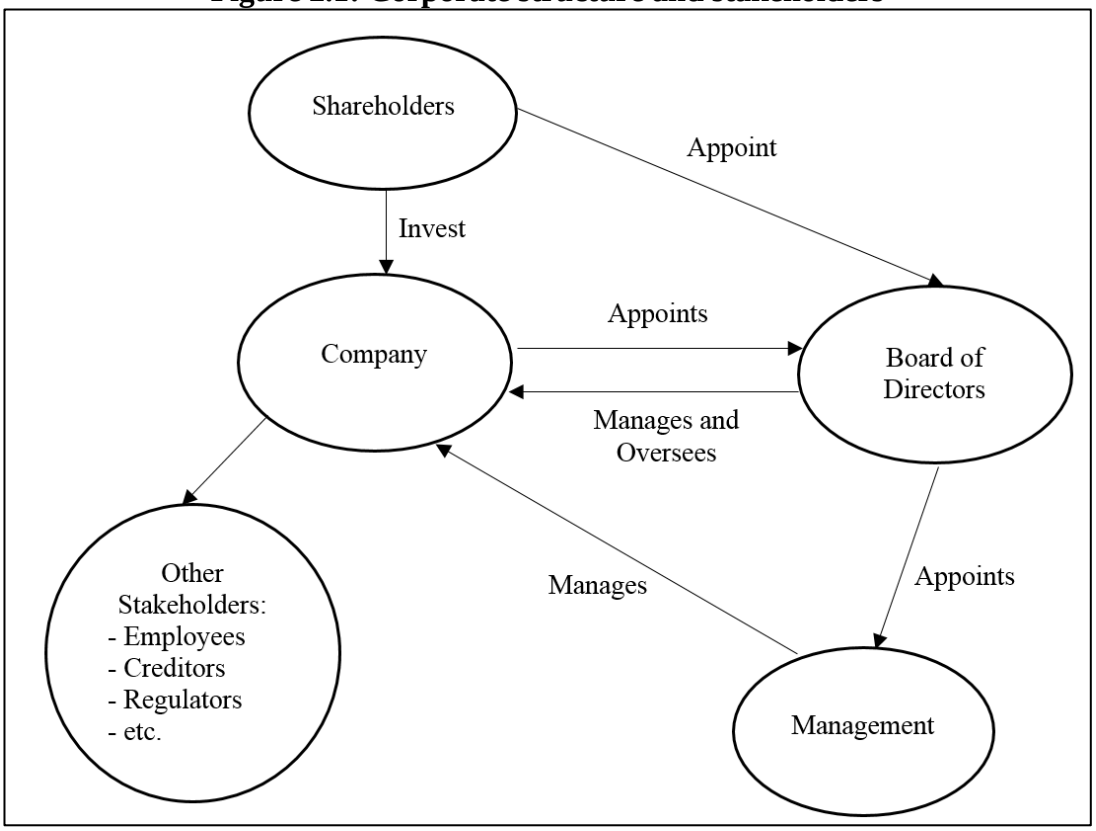
Corporate governance mechanisms can be broadly segregated into internal and external mechanisms. The internal mechanisms include board of directors (Weisbach 1988; Jensen 1993; Zattoni and Cuomo 2010; Essen, Oosterhout and Carney 2012; Kumar and Zattoni 2017) and ownership structure (Jensen and Meckling 1976; Shleifer and Vishny 1997; Nguyen, Locke and Reddy 2014); whilst the external mechanisms include legal system (LaPorta, Lopez-de-Silanes and Shleifer 1999; Coombes and Watson 2001; Mallin 2004; Abdul-Rahman 2006; Peng and Jiang 2010; Sapp 2008) and institutional investors (Hartzell and Starks 2003; Aggarwal et al. 2011; McCahery, Sautner and Starks 2016).

Figure 2.1 displays the relationships of a company with its various stakeholders. The need for corporate governance mechanisms arises from the potential conflicts of interest among different stakeholders in the corporate structure (Jensen and Meckling 1976; Hart 1995; Gillan and Starks 2003). These conflicts of interest, also known as agency problems, arise due to differing goals and preferences of various stakeholders and imperfect information (Jensen and Meckling 1976). In fact, it has long been identified by Berle and Means (1932) that the root cause of agency conflicts is the separation of ownership and control. In today's corporate context, companies raise funds by issuing shares to investors in the securities market. These shareholders entrust a board of directors and management to manage the companies. This situation gives rise to the separation of ownership and control. Berle and Means (1932) note that in

[10] Stakeholders are those that can affect or are affected by the achievement of the organization's objectives such as shareholders, creditors, customers, employees, government, regulators and community (Freeman 1984).

the absence of corporate governance mechanisms, the separation of ownership and control provides executives with the ability to act in their own self-interest rather than in the interests of shareholders. Thus, adequate corporate governance mechanisms are essential to ensure that the company's best interest is put forward (Anandarajah 2004). Good corporate governance can be achieved via a synergistic nexus between the shareholders, board of directors and management. In general, the focus on corporate governance stems from the separation of ownership and control, which gives rise to agency problems.

Figure 2.1: Corporate structure and stakeholders



Source: Anandarajah (2004)

As an internal mechanism, the board of directors is expected to play an important role in corporate governance, particularly in monitoring management. The board is the shareholders' first line of defence against incompetent management, and serves as a link between the shareholders and managers (Weisbach 1988). The shareholders cannot possibly oversee the managers so they elect the representatives (board of directors) to oversee and possibly intervene in the management on their behalf (Abdul-Rahman 2006). The responsibilities of the board include endorsing the company's

strategy, developing directional policy, appointing, supervising and remunerating senior executives and ensuring the accountability of the company to its shareholders (Méndez, García and Pathan 2017; Zattoni and Cuomo 2010). The corporate board structure around the world is broadly divided into (i) unitary or one-tier board[11] and (ii) dual or two-tier board[12]. The countries having a unitary or one-tier board include the United States, the United Kingdom, Singapore, Malaysia, and India; whilst the countries practising a dual or two-tier board are Germany, China, Japan, Taiwan, and Indonesia (Ding 2009; Tan 2011; Block and Gerstner 2016).

The 2008 global financial crisis as well as several corporate scandals such as Enron and WorldCom have given new impetus toward rethinking the fundamental principles of corporate governance. All of these incidents have led to the increased expectations pertaining to the monitoring effectiveness of the board of directors. Fama and Jensen (1983) postulate that board composition is a crucial factor in establishing the effectiveness of a board as an objective monitor of management. Board composition is generally proxied by the percentage of outside directors or independent directors on the board of directors (Adrian, Wright and Kilgore 2016). The outside directors or independent directors are deemed as the corporate guardians and act as a buffer between the executive directors and the shareholders. They monitor the executive directors' actions and decisions and, are required to ensure the company is acting in the best interests of shareholders and other stakeholders.

Shleifer and Vishny (1997) put forward that ownership structure is a crucial factor in determining an effective corporate governance system. Agency theory regards large shareholders (shareholders owning a large amount of shares in a company) as a favourable ownership structure because they have the incentive to engage in monitoring management (Goh, Rasli and Khan 2014; Jensen and Meckling 1976).

[11] A one-tier board has both managerial and supervisory responsibilities in one unified board of directors. It consists of executive and non-executive directors which are elected by shareholders and responsible for all aspects of company activities.

[12] A two-tier board system is composed of a management board and a supervisory board. The supervisory board is elected by shareholders while the management board is appointed by the supervisory board.

According to Edmans (2014), large shareholders or block-holders[13] can play a crucial role in corporate governance because their large stakes give them the incentive to bear the cost of monitoring managers. In widely held companies, the shareholders have inadequate incentive to monitor the management intimately as the benefits for any individual shareholder is too minimal to cover the monitoring costs (Grossman and Hart 1982). Large shareholders can exert governance through two mechanisms: (i) *voice* - such as suggesting a strategic change via public shareholder proposal, private letter to management, or voting against the directors; and (ii) *exit* - if the manager destroys corporate value, block-holders can sell their shares, suppressing the share price and hence punishing the managers (Edmans 2014).

Notwithstanding this, the concentrated ownership structure gives rise to the possible expropriation of minority shareholders. Controlling shareholders may act in their own interests at the expense of minority shareholders, such as engaging in related-party transactions, buying products at an excessive price from another company they own, selling assets at below market price to controlling shareholders, paying special dividends to controlling shareholders, and other managerial entrenchment[14] activities (Shleifer and Vishny 1997; Gomez-Mejia, Nuñez-Nickel and Gutierrez 2001; Edmans 2014). The concentrated ownership structure may alleviate the conflicts of interest between shareholders and management, but there may be the conflicts of interest between the controlling shareholders and minority shareholders. In short, instead of mitigating the agency problem, concentrated ownership structure may exacerbate it.

The legal system serves as one of the external governance mechanisms in influencing the type of ownership and control structure in a country (LaPorta, Lopez-de-Silanes and Shleifer 1999; Coombes and Watson 2001; Abdul-Rahman 2006; Peng and Jiang 2010). Shareholder protection is rooted in the legal structure of a country (Peng and Jiang 2010). The ineffectiveness of a legal system to protect shareholders' rights discourages a diverse shareholder base. LaPorta, Lopez-de-Silanes, and Shleifer (1999)

[13] Block-holders are generally defined as the shareholders who hold at least 5% of a company's common shares (Edmans 2014; Nguyen, Locke and Reddy 2014).

[14] Entrenchment refers to the executives hold their jobs past the point where their stewardship is beneficial to the owners (Gomez-Mejia and Wiseman 1997; Walsh and Seward 1990).

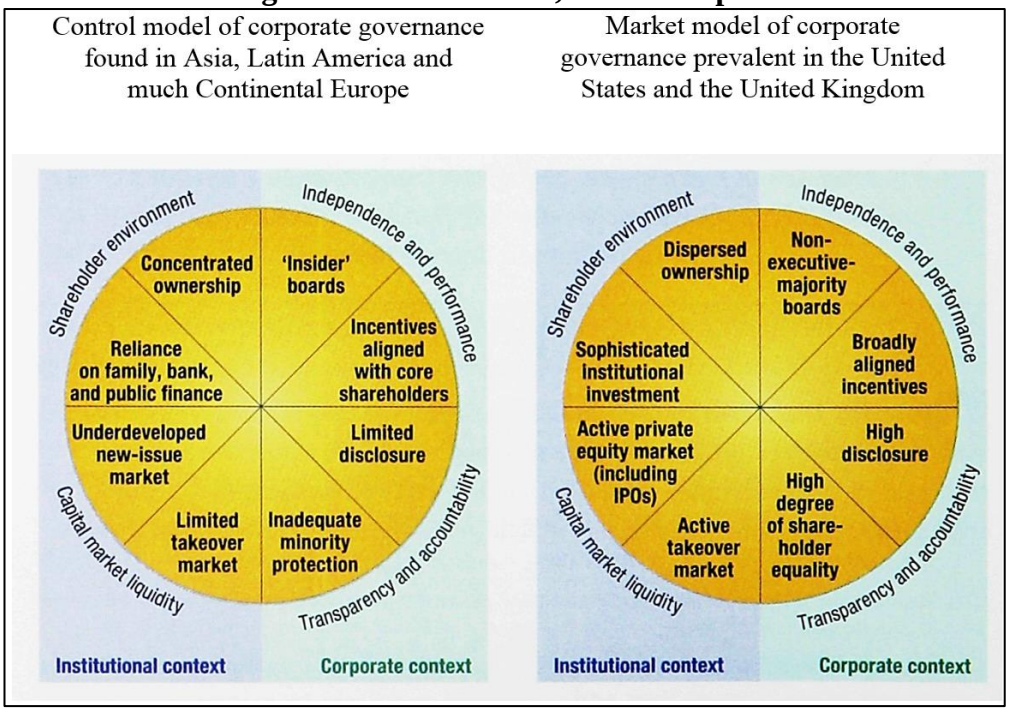
highlight that the concentrated ownership structure is a consequence of poor legal protection for minority shareholders. They note that widely held companies are more common in the countries with good shareholder protection, whilst family-controlled companies and state-controlled companies are more pervasive in the countries with poor shareholder protection. In the United States and the United Kingdom, where the rights of minority shareholders are well protected by the legal system, companies with diversified shareholder bases are more prevalent than family-controlled companies (Mallin 2004). On the other hand, in Asia, South America and some European countries, where the legal protection of minority shareholders is either ineffective or absent, family shareholders often retain control in the companies and non-family investors would have little investment interest in such companies as their rights are less protected (Mallin 2004). The legal system of a country affects the ownership structure of its companies, which in turn affects the corporate governance practices.

Franks and Mayer (1997) contend there are two types of ownership and control structures: (i) the outsider system and (ii) the insider system. The outsider system is commonly found in the United States and the United Kingdom where the shareholders have voting rights that provide them with some level of influence. If the company is poorly managed or shareholder rights are neglected, the shareholders can counter by selling shares (*exit*), causing share prices to decline, and consequently, exposing the company to a hostile takeover (Graves and Waddock 1990; Hawley and Williams 1997; Parrino, Sias and Starks 2003; Aggarwal et al. 2011). The outsider system is known as Anglo-American or Anglo-Saxon system due to the influence of the US and the UK markets on other countries. Coombes and Watson (2001) document that most of the previous studies discuss corporate governance model based on the tenet of outsider system or the market model of corporate governance.

Contrary to the market model of corporate governance, the control model of corporate governance typifies an insider system, where the ownership and control are concentrated in the hands of an identifiable and cohesive group of insiders. The insider system is prevalent in Asia, Latin America and much Continental Europe. The large shareholders have significant direct control in the company. They may be the family of founders, financial institutions, or governments (LaPorta, Lopez-de-Silanes and

Shleifer 1999; Claessens, Djankov and Lang 2000). For instance, the state/government plays a dominant role in French and Chinese companies (Liu and Sun 2005; Mallin 2004), family groups or known as *chaebol* are the dominant shareholders of the companies in South Korea (Claessens, Djankov and Lang 2000); banks and other financial institutions are the common controlling shareholders in German and Japanese companies (Ahmadjian and Robbins 2005; Kaplan 1994); founders and their family members are typically the major shareholders of companies in Malaysia, Indonesia and Thailand (Claessens, Djankov and Lang 2000). In contrast to the outsider system or market based system, which insists upon the public disclosure of information, the insider system is more prone to a selective exchange of information among insiders. The low level of separation of ownership and control could lead to an abuse of power by controlling shareholders. They can access insider information to gain advantages and influence management decisions (La Porta et al. 2000). Figure 2.2 shows the distinguishing features of the two models of corporate governance that prevail in different countries.

Figure 2.2: Two models, a World Apart



Source: Coombes and Watson (2001)

Many countries recognise that local businesses need external funds in order to grow and pursue expansion. External investors will only be attracted to the business if their shareholder rights are protected, both in the context of country's legal framework and

the corporate governance of individual companies. This leads to increasing pressure for legal reform to protect shareholders' rights and corporate governance reforms within the individual companies. Nonetheless, controlling family shareholders have the tendency to resist legal pressure for reform as a better protection of minority shareholders would dilute their control (Mallin 2004). Shleifer and Vishny (1997) document that the companies in developed market economies such as the United States, Germany and Japan are well governed by the legislation. The corporate governance systems in most other countries, ranging from poor developing countries, to transition economies, to some European countries such as Italy, lack some crucial elements of a good system, particularly the legal protection of shareholders (Shleifer and Vishny 1997). LaPorta, Lopez-de-Silanes, and Shleifer (1999) urge for the improvement of legal environment in order to alleviate the expropriation of minority shareholders. Succinctly, the legal system is another critical factor in shaping sound corporate governance. The economic growth of a country will be stagnant if the legal system does not have or cannot allow for an effective corporate governance system and provide good shareholder protection.

Moreover, agency theory advocates suggest that institutional investors[15] could serve as an external governance mechanism in ameliorating the agency conflict between shareholders and management (Hartzell and Starks 2003; Dong and Ozkan 2008). Institutional investors manage large pool of investment funds and have a fiduciary duty to serve their contributors (Hawley and Williams 1997; Ozkan 2007). As such, institutional investors have the incentive to exercise intimate oversight of the management in order to reduce agency costs and protect the wealth of their contributors. Institutional investors can influence the management by using their proxy vote or by selling shares if they are dissatisfied with the management or firm performance (Graves and Waddock 1990; Hawley and Williams 1997; Parrino, Sias and Starks 2003; Gillan and Starks 2003; Aggarwal et al. 2011). In addition, institutional investors can use formal and informal ways, such as shareholder activism or the election of board members to influence management (Cubbin and Leech 1983; Khan, Dharwadkar and Brandes 2005; Dong and Ozkan 2008). Past studies show that

[15] Institutional investors include insurance companies, mutual funds, pension funds, and bank trusts

institutional investors are effective corporate monitors via corporate performance (Cornett et al. 2007; Nguyen, Locke and Reddy 2014); earnings management (Chung, Firth and Kim 2002; Koh 2007); director remuneration (Hartzell and Starks 2003; Ozkan 2007); and adoption corporate governance practices (Aguilera and Cuervo-cazurra 2004; Aggarwal et al. 2011).

To summarise, the internal corporate governance mechanisms encompass the board of directors and concentrated ownership; while the external corporate governance mechanisms include the legal system and institutional investors.

2.3 Theories Influencing the Development of Corporate Governance

The development of corporate governance has been influenced by many disciplines such as finance, economics, accounting, law, management and organisational behaviour. Just as many disciplines have influenced the development of corporate governance, the theories that have fed into it are quite varied as well. The main theories that explicate the development of corporate governance are agency theory, transaction cost economics, and stakeholder theory (Mallin 2004; Abdul-Rahman 2006). Agency theory comes from the fields of finance and economics; transaction cost economics derives from the economic and organisational theory; while a social-oriented perspective focuses on stakeholder theory.

2.3.1 Agency Theory

Agency theory is discussed in detail under section 3.1, thus this section discusses the agency theory relatively briefly. Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. The agency relationship can have a number of disadvantages relating to the opportunism or self-interest of the agent. The agent may not act in the best interests of the principal. The agent may misuse his power for pecuniary or other advantages and may not take appropriate risks in pursuance of the principal's interest due to the different attitudes toward risk. Moreover, there is the problem of information asymmetry whereby the principal and agent have access to asymmetrical levels of information. Practically, the principal is at disadvantage as the agent will have more information.

In the context of a firm, the managers are the agents while the shareholders are the principals (Fama and Jensen 1983; Jensen and Meckling 1976). Agency theory views corporate governance mechanisms, particularly the board of directors, as an essential monitoring device to minimise principal-agent problems (Fama and Jensen 1983). The managers must be monitored and institutional arrangements must provide some checks and balances to make sure they do not abuse their power.

In the last few years, there has been increasing pressure on the institutional investors to play governance role. This is due to the numerous corporate abuses such as overpaying directors for poor performance, corporate collapses and scandals which have caused corporate pension funds becoming insolvent and shareholders losing their investment.

In short, agency theory views the company as a nexus of contracts where there is a connected group of or series of contracts amongst various players. The focus of the agency theory is the selection of appropriate corporate governance mechanisms to minimise the agency costs. Board of directors, shareholder activism by institutional investors, and takeover markets are some of the monitoring mechanisms employed to reduce agency problems.

2.3.2 Transaction Cost Economics

Transaction cost economics (TCE) is initially developed by Coase (1937), and then expounded on by Williamson (1971). TCE is an interdisciplinary alliance of law, economics and organisations. TCE is often viewed as being closely related to agency theory. While agency theory views the company as a nexus of contracts, TCE views the company as a governance structure. As the companies grow in size, whether by the desire to achieve economies of scale or by technological advances, they increasingly require more capital, which needs to be raised from capital markets; a wider shareholder base is then established. Consequently, the problems associated with separation of ownership and control arise. Williamson (1985) proclaims that the costs of any misaligned actions may be as a result of a judicious choice of governance structure rather than merely realigning incentives and pricing them out.

Stiles and Taylor (2001) point out that both TCE theory and agency theory assume managers operate under 'bounded rationality' and always seek to conduct opportunistic behaviour (self-interest seeking) such as misleading, distorting and confusing the other party in a contract. 'Bounded rationality' means managers will tend to satisfy rather than maximise profit, which is not in the best interests of shareholders. The opportunism can be mitigated by internal corporate governance mechanism such as monitoring mechanism that prevents inappropriate behaviour by the agents and report on how well their performance meets the principals' expectations. Thus, the existence of opportunism results in transaction costs in the form of monitoring behaviour, safeguarding assets and ensuring the other party does not engage in opportunistic behaviour (Grover and Malhotra 2003). Both TCE and agency theories regard the board of directors as an instrument of corporate control (Stiles and Taylor 2001).

TCE and agency theory basically deal with the same issues and problems. While agency theory focuses on the individual agent, transaction cost theory focuses on the individual transaction. Agency theory concerns the tendency of managers or directors to act in their own best interests such as pursuing perquisites and status. On the other hand, TCE concerns managers or directors may arrange transactions in an opportunistic way. Distinct from the agency theory, the corporate governance issue heightened by TCE is the effective and efficient accomplishment of transactions by the company, rather than the protection of the ownership rights of shareholders (the focus of agency theory). In short, TCE views the company as a governance structure. If the companies use an appropriate governance structure, it can help to align the interests of management and shareholders, and indirectly minimise the transaction costs incurred.

2.3.3 Stakeholder Theory

Embedded in the management discipline in the 1970s, stakeholder theory is gradually developed by Freeman (1984), incorporating corporate accountability to a broad range of stakeholders. Stakeholder theory is in juxtaposition to agency theory. Stakeholder theory takes account of a wider group of constituents rather than focusing on shareholders. Stakeholder theory posits that every organisation is created to serve a

diverse range of people with a broad societal purpose. The theory laments the focus on just corporate profit maximisation could result in severe negative consequences for human rights, working conditions and the environment (Abdul-Rahman 2006).

Unlike the agency theory which emphasises that managers are working for and serving shareholders, stakeholder theory suggests that managers have a network of relationships to serve, for instance, suppliers, employees and business partners (Donaldson and Preston 1995; Metcalfe 1998). Freeman (1984) contends that the network of relationships with many groups can affect the decision-making process. Shareholders and stakeholders may favour different corporate governance practices and monitoring mechanisms (Mallin 2004). Donaldson and Preston (1995) claim that all stakeholders have intrinsic values, and no set of interests is assumed to dominate the others. Stakeholder theory dictates that managers have a fiduciary duty to act in the interest of all stakeholder groups by giving equal consideration when making corporate decisions and choosing an action that will achieve an optimal balance among the conflicting claims of these groups (Smith and Hasnas 1999).

2.3.4 Summary

The development of corporate governance has been influenced by a number of theories. Hence, the theoretical frameworks that have evolved are quite varied. There have been efforts to converge the corporate governance systems in view of the globalisation of financial and product markets, and the increasing proximity of legal and institutional norms. Nonetheless, it is unlikely that one should expect a uniform corporate governance arrangement in the world (Abdul-Rahman 2006).

The current theories related to corporate governance cannot fully explain the complexity and heterogeneity of corporate business. Corporate governance in different countries may vary due to its cultural values, and political, social and historical circumstances. In this sense, the governance for developed and developing countries can vary due to the culture and economic contexts of an individual country.

This thesis adopts agency theory in explaining corporate governance mechanisms in the context of a developing country, Malaysia.

2.4 Contextual Background of Malaysia

Although developing countries in Asia share a range of common governance attributes such as concentrated ownership, some characteristics are unique and distinctive to particular countries. Malaysia is a multiracial country and the spheres of politics and races are inextricably intertwined. Malaysian companies operate in a multi-ethic and multicultural environment as well as a unique government and institutional setting.

Malaysia is a federal constitutional monarchy located in Southeast Asia, consisting of thirteen states and three federal territories. It is separated by the South China Sea into Peninsular Malaysia consisting of eleven states and East Malaysia (Borneo) consisting of two states. There are four main ethic communities in Malaysia: i) Malays, ii) Chinese, iii) Indians, and iv) other indigenous peoples from the states of Sabah and Sarawak, such as Iban, Melanau, Bidayuh and Kadazan Dusun. The Malays and indigenous groups are collectively known as Bumiputera (Son of the Soil). As of 2016, the largest ethnic community in Malaysia is Bumiputera (68.6%), followed by Chinese (23.4%), Indians (7.0%) and others (1.0%) (Department of Statistics Malaysia 2016).

In early years, despite Chinese making up less than one-third of the population, they have controlled most of the country's economy (Gomez 1999; Heng 1997; Jesudason 1989). The Chinese business ubiquity have elicited the attempt of the Malaysian government to redistribute wealth to achieve economic parity among the other ethnic communities (Gomez and Jomo 1999). The New Economic Policy (NEP) has been introduced and implemented between 1971 and 1990, with the objective to achieve national unity by 'eradicating poverty' irrespective of race, and by 'restructuring society' to achieve inter-ethnic economic parity (Jomo 2004; Gomez 1999). The NEP aims to correct the economic imbalance by increasing the participation of Bumiputera in the economy. One of its targets is to achieve 30% of Bumiputera ownership in the corporate sector by 1990 (Gomez and Jomo 1999).

In reality, the NEP is criticised as a positive discriminatory policy favouring Bumiputera. The poverty reduction efforts are primarily designed for Bumiputera (Jomo 2004). The NEP have successfully increased the Bumiputera's corporate ownership from 2.4% in 1970 to 20.3% in 1990, despite the figure still falling short of

the targeted 30% (Rasiah and Shari 2001). When the NEP ends in 1990, the Malaysian government has subsequently introduced the National Development Policy (NDP) for the period from 1991 to 2000 and the National Vision Policy (NVP) for the period from 2001 to 2010, with the aim of achieving a balanced development within a framework of rapid growth. In particular, one of the main objectives of the NVP, which incorporates the critical thrusts of the previous NEP, is to achieve at least 30% Bumiputera participation in all industries by 2010. All publicly listed companies (PLCs) must have at least 30% of equity ownership by Bumiputera (Securities Commission Malaysia 2001). In this premise, it is elicited that Malaysian PLCs operate in a racist discriminatory economy because of the government's initiatives favouring Bumiputera.

Furthermore, Malaysian companies operate in an economy of cronyism and rent-seeking (Gomez and Jomo 1999). Through the NEP, rents have been created, captured and disbursed, ostensibly as part of the government's policy of 'restructuring' to achieve greater inter-ethnic wealth parity and develop Bumiputera entrepreneurs. Gomez and Jomo (1999) further reiterate the rentier opportunities are distributed to the companies controlled by politicians, retired bureaucrats, parties in the ruling coalition and politically well-connected businessmen. Bumiputera have been given, among other privileges, priority for large government contracts, increased access to capital, opportunities to buy assets that have been privatised, and other subsidies (Johnson and Mitton 2003). Consequently, Malaysian companies that are not government-linked or politically-connected have to build closer ties with the government in order to obtain business contracts and projects for business survival (Gomez and Jomo 1999). LaPorta, Lopez-de-Silanes, and Shleifer (1999) document that the companies operating in a complicated political environment need to deal with various laws and regulations that restrict or subsidise their activities. As a result, in order to avoid the restrictions or to get subsidies, the companies need to bribe politicians and regulators, or have political ties. In the context of family companies, Carney and Child (2013) document that 22% of family companies are politically connected. Their findings evident that the incidence of crony capitalism in family companies.

Since independence in 1957, Malaysia's economy has gone through a major transformation from heavy reliance on tin mining and rubber plantations to industrial based economy. The government has established several policies and agencies to promote the industrial sector and encourage foreign investment such as liberal equity policy where the foreign investors are allowed to hold 100% equity of the investments in new projects as well as any investments in expansion or diversification projects by existing companies in the manufacturing sector. The industrialisation and capital inflow from foreign investment have successfully boosted Malaysia's economic growth (Ling and Sing 2007). As well, the privatisation of key state enterprises in the transport sector, gaming and utilities have further prospered the growth of market capitalisation in the 1980s (Thillainathan 1999).

The rapid growth of the Malaysian economy has not diluted the concentrated ownership structure of Malaysian companies (Tam and Tan 2007). The concentration of ownership and control in most Malaysian PLCs tends to be vested in the block-holders. The dominant shareholder with concentrated ownership in Malaysian PLCs is the family, followed by the government (Carney and Child 2013; Claessens, Djankov and Lang 2000). Specifically, 44.7% of PLCs are family-owned companies and 33.5% of PLCs are government-owned companies (Carney and Child 2013). The highly concentrated ownership and control in Malaysia is a distinctive feature that requires a different corporate governance system than the environment with strong investor protection and a dispersed ownership structure. Thillainathan (1999) maintains that in an environment of concentrated ownership, it is unlikely to limit the manager's discretion through hostile takeovers because no such market may exist given the existence of large controlling shareholders.

Due to the frequent acquisitions, take-overs, and mergers and acquisitions by the foreigners, the government has established the Foreign Investment Committee (FIC) to regulate foreign interests in order to minimise the imbalances of local participation in Malaysian companies whilst encouraging foreign investment with balanced ownership and control. The FIC has implemented FIC Guidelines to regulate the foreign participation in acquisitions, mergers and takeovers (Lien and Lum 2016).

In April 2009, the Prime Minister of Malaysia announces the removal of the 30% Bumiputera equity requirement for 27 services sub-sectors, disbandment of the FIC and the repeal of the FIC Guidelines. This is due to the urgent need for Malaysia to undergo a transformation in its pursuit to achieve the status of a developed nation (Hill, Tham and Zin 2012). The motives of the disbandment of FIC and the liberalisation of certain restrictions are to stimulate economic growth and encourage more foreign investments. In 2016, the foreign investments account for 46.8% or equivalent to RM27.4 billion of all investments approved for the year. Of this foreign investments amounted RM27.4 billion, RM10.3 billion or 37.6% is for new projects while the remaining RM17.1 billion or 62.4% is for expansion or diversification projects (Malaysian Investment Development Authority 2016). Foreign investors, in complying with their investment criteria, demand higher standards of corporate governance in investee companies (Emerging Markets Committee 2012).

2.5 Corporate Governance Landscape in Malaysia

In the late 1980s and early 1990s, the eruption of several local corporate scandals in Malaysia urges the government to consider implementing corporate governance system. These local corporate scandals include the irregularities in Renong Berhad, the Bumiputera Malaysia Finance (BMF) scandal, the Perwaja Steel Mill fiasco, the downfall of Sime Bank Berhad, the corporate misconduct of Technology Resources Industries (TRI) Berhad and the massive troubles of Malaysian Airline Systems (MAS). The corporate governance efforts are done in a piecemeal manner (Murphy 2013). The importance of corporate governance has become increasingly appreciated when the 1997 Asian financial crisis hit the Malaysian economy. The following sub-sections provide an overview of the development of corporate governance in Malaysia.

2.5.1 Pre- 1997 Asian Financial Crisis

Malaysia has been under British rule for over eighty years. Despite gaining independence on 31st August 1957, the colonial influence is pervasive and evident in the enactment of the Companies Act 1965 (CA), which modelled on the English Companies Act 1948 and the Australian Uniform Companies Act 1961 (Yap and Guan 1997). The Companies Act 1965 stipulates the fundamental rules governing the procedures for incorporation, the basic constitutional structure, and the cessation of

companies. Over the years, the CA has been amended several times to reflect changes in the local corporate environment, giving it some Malaysian character. The CA stipulates the fundamental corporate governance requirements, among others, financial disclosure, directors' duties and shareholders rights (Teoh and Chuah 1997).

In 1973, the Kuala Lumpur Stock Exchange – KLSE (now known as the Bursa Malaysia) has been incorporated. The listing requirements (LRs) of the KLSE is an important aspect of corporate governance in Malaysia. Any company seeking to be listed in the KLSE is required to include a minimum threshold of stipulated criteria. The criteria include the number of shareholders, the value and volume of public shares, qualitative criteria pertinent to corporate governance, as well as the credible documentation of compliance with those criteria. Over time, the LRs has experienced continuous amendments as to enhance the corporate governance and disclosure of public listed companies. For instance, in 1987, the LRs introduces the requirement for the presence of independent directors on board. In 1993, the LR mandates all PLCs to set up an audit committee comprising a majority of independent directors. All of these corporate governance initiatives have been implemented well before the 1997 Asian financial crisis. Nonetheless, prior to the disastrous financial crisis, the LRs does not stipulate any obligation to disclose the directors' remuneration.

The Securities Industry Act 1973 (SIA) has been enacted to supplement the CA. It has been repealed and replaced by a similar act in 1983, as to make provisions with respect to stock exchanges and persons dealing in securities, and for certain offences relating to trading in securities. The establishment of the SIA provides more protection for the investors' interests as well as more specific regulations for the securities industry.

In 1987, the Panel on Takeovers and Mergers has introduced the Malaysian Code on Takeovers and Mergers 1987, and issued various practice notes to regulate the corporate activities on takeovers and mergers. Nonetheless, takeovers are rare in Malaysia. This is due to the large ownership stake of the controlling shareholders, which prevents the accumulation of enough shares to threaten the corporate control (Cheah 2005; Thillainathan 1999).

On 1st March 1993, the Securities Commission (SC) has been established under the Securities Commission Act 1993 (SCA). It is the central regulatory authority for the capital market, which administers the SIA 1983. Upon its establishment in 1993, the SC inherits the merit-based regulation (MBR) regime[16]. In 1996, the SC has decided to gradually replace the MBR by adopting disclosure-based regulation (DBR) regime[17] as a necessary progression for the Malaysian capital market to become more efficient and to develop into a sound and credible market of international standing. The move involves the amendments to several related legislative acts, including the SCA 1993, the SIA 1983, the Securities Industry (Central Depositories) Act 1991, and also the introduction of several new regulatory codes and guidelines, such as Policies and Guidelines on Issue/Offer of Securities, and Guidelines on Due Diligence Practices 1996.

In April 1996, the Registrar of Companies has introduced guidelines to regulate the behaviour of company's directors and secretaries (Guidelines on Voluntary Codes of Company Directors and Company Secretaries 1996). The Code of Ethics for Directors 1996 adopts the principles of transparency, integrity, accountability and corporate social responsibility, and covers three main areas: (i) corporate governance; (ii) relationship with shareholders, employees, creditors and customers; and (iii) social responsibility and the environment.

Succinctly, the PLCs in Malaysia are subject to several major legislative acts namely (i) Companies Act 1965; (ii) Listing Requirements of KLSE; (iii) Securities Industry Act 1983; (iv) Malaysian Code on Takeovers and Mergers 1987; (v) Securities Commission Act 1993. Each of these enactments has been amended on several

[16] Under the MBR, the SC regulates the offering of securities by assessing the investment merits and the pricing of the offering. The regulator assume a paternalistic role in assessing the merit of securities to be issued and interposes itself between those seeking to raise funds and those seeking to invest.

[17] Under the DBR, the onus of assessing the merit of any securities rests with the investors whose money is being put at risk. The investors assess and determine the investment merits of the offering while the SC regulates the disclosure of material information. The rationale for the shift to the DBR include enhancing regulatory focus on investor protection, increasing the efficiency of the market by removing the deficiencies which exist in an MBR environment, encouraging higher standards of disclosure, improving due diligence and corporate governance as well as accountability among promoters and directors of public companies, their advisers to investors, and facilitate market discipline on pricing and valuation of securities. The shift to DBR takes effect over a period of five years under three phases, beginning in 1996, and with full DBR achieved by 2001.

occasions, and a majority of the changes are related to improving corporate governance practices.

Due to international development on corporate governance and major domestic corporate scandals such as the government-owned Perwaja Steel Mill in the mid-1990s, a number of new governance initiatives have been undertaken before the 1997 Asian Financial Crisis as to further reform the corporate governance system in Malaysia (Lilling 2006). For example, in 1997, the Code on Takeovers and Mergers has been revamped as a move towards creating more 'corporate governance conscious' boards of directors (Lilling 2006). Just few months prior to the onset of the 1997 Asian crisis, the Financial Reporting Act has been legislated in the parliament; it introduces a new financial reporting framework, with the establishment of the Financial Reporting Foundation, and the Malaysia Accounting Standards Board (Cheah 2005).

2.5.2 1997 Asian Financial Crisis

The devaluation of the Thai baht or more commonly referred to as the 1997 Asian financial crisis has drastically depreciated the economy of Malaysia and other East Asian countries. The economic situation in Malaysia have substantially changed with the plummeting of the Malaysian currency and stock market (Sari 2001). The Malaysian currency, Ringgit Malaysia (RM) has deflated from a peak exchange rate of RM 2.49 to USD 1 in April 1997 to its lowest rate of RM 4.88 on 7th January 1998 (Jomo 1997). Between 1997 and 1998, the Malaysian Ringgit has depreciated by 45.2% against the greenback, while the Composite Index of the KLSE has dropped by 54.7% and its market capitalisation has plunged by 57.9% (Ong 1999).

The aftermath of the 1997 Asian financial crisis has alerted the government the importance of implementing effective corporate governance mechanisms (The Equality Trust 2017; The World Bank 2012). There has not been a consensus about the causes of the 1997 Asian financial crisis, but the poor corporate governance practices have been widely regarded as the primary culprit. These practices include over leveraging by the companies; allegations of cronyism; conglomerate structures that are perceived to be given preferential treatment; the existence of a complex system of family-controlled companies; poor legal protection for investors against

expropriation due to corporate insiders; little or no effective laws to ensure controlling shareholders and management treat minority investors equitably and fairly; lack of transparency, disclosure and accountability, especially inadequate disclosure of risk exposures (Suto 2003; Abdul-Rahman 2006; Claessens et al. 1999).

The 1997 financial crisis has caused the public particularly investors to lose confidence in the local stock market, corporate governance, and the financial reporting system in Malaysia. This is reflected on the subsequent cash flow movements where there is a significant decrease in capital inflows and an increase in capital outflows. The ratio of total market turnover to market capitalisation has increased from 0.59 in 1996 to 1.13 in 1997 (Thillainathan 1999). The problem occurred not merely because of the weaknesses in the laws, but also due to the weak enforcement of minority shareholder rights, as well as the failure of regulators to take strong actions or impose required penalties against violators (Abdul-Rahman 2006).

Consequently, the 1997 Asian financial crisis has resulted in the government taking proactive measures to review and strengthen corporate governance in order to regain the confidence of investors. The major reforms include the establishment of the: (i) High Level Finance Committee on Corporate Governance (FCCG) in March 1998; (ii) Malaysian Institute of Corporate Governance (MICG) in March 1998; and (iii) Minority Shareholder Watchdog Group (MSWG) in August 2000. The details of each of these institutional developments are presented in the following sections.

2.5.3 Post- 1997 Asian Financial Crisis

The post 1997 era witnesses the significant development of corporate governance in Malaysia in an attempt to enhance corporate transparency and accountability. This sub-section outlines the initiatives implemented since 1998.

2.5.3.1 Statutory Reforms

In March 1998, the High Level Finance Committee on Corporate Governance (FCCG) is established by the Ministry of Finance. It is represented by the senior representatives of the government, regulatory bodies, industry bodies and professional associations. The primary task of the FCCG is to identify and address weaknesses highlighted by

the 1997 financial crisis and to establish a framework for corporate governance best practices. The FCCG's findings are reported through the publication of the Finance Committee Report on Corporate Governance (FCCG Report) in 26th March 1999. The FCCG Report represents the end-product of an extensive collaborative effort between the government and industry, and covers three broad areas: i) the development of the Malaysian Code on Corporate Governance which sets out a set of principles and best practices for good governance; ii) reform of laws, regulations and rules to strengthen the regulatory framework for corporate governance; and iii) training and education to ensure the framework for corporate governance is supported by the necessary human and institutional capital.

The FCCG is also responsible to review the existing corporate legislation and suggest whether legislative or regulatory reform is required to improve them. The SIA has been amended in April 1998 in order to enhance and reinforce the power of the Securities Commission, and also to institute civil remedies against offenders for insider trading. The SIA has been once again amended in 2003 as to incorporate better controls and improvements of the securities industry, in terms of its disclosure, enforcement and reports. The amended SIA requires annual Regulatory Report on compliance with ongoing requirements, as stated in its provision 11E. Through subsequent amendments to the SIA, the powers of the SC and the KLSE have been significantly reinforced.

Moreover, an amendment has been made to the SCA 1993 in April 2000, which further provides power for the SC to pursue civil action on behalf of investors. With such an authority, the SC has taken enforcement actions against the directors and controlling shareholders of PLCs. According to a corporate governance assessment by the World Bank (2012), the SC has taken over 130 administrative actions, 51 civil actions and initiated 45 prosecutions over the last five years. They have also issued dozens of warning letters each year for minor infractions. These enforcement actions cover a range of offenses, including provision of false and misleading information, and failure to comply with rules on takeovers and other SC requirements. Compared to many other jurisdictions, the SC has been relatively aggressive in using its power and a range of enforcement tools. Notwithstanding this, there have also been notable scandals and investigations which remain ongoing. The delay in sanctions imposed on these cases

has raised questions among market participants on the willingness to pursue them, especially if a prominent person is involved. (The World Bank 2012).

Between 1999 and 2000, several amendments have been made to the CA 1965 to incorporate the proposals from the FCCG Report. In 2006 and 2007, the CA has experienced another round of significant amendments. Some of the key changes include clearer duties of the loyalty and care for directors, recusal requirements for conflicted directors, a requirement for shareholders to approve substantial related party transactions in line with LRs, a shareholders' right to file derivative actions on behalf of the company in cases where directors may have violated their duties, a requirement for companies to establish internal controls, and whistle-blower protection for auditors and company officers. However, according to The World Bank (2012), despite CA 1965 being amended several times, it still contains gaps with respect to shareholder rights and is not always clear or explicit in key areas. For instance, the shareholders have the right to 'speak' but not the right to ask questions; as well as no explicit right for shareholders to receive dividends in proportion to their shareholdings or to receive them in a timely manner. In addition, the CA offers a weak basis for the issues of creditor rights, insolvency and liquidation. More particularly, the World Bank (2012) comments that the CA lacks clarity and specifics in key areas, and the market participants may not always fully understand relevant parts of it.

In relation to the LRs, it has been revamped in 2001 to implement the recommendations of the FCCG Report. About twenty two out of twenty five recommendations proposed in the FCCG Report have been incorporated in the revamped LRs. The revamped LRs is in line with the MCCG 2000 to enhance corporate governance and transparency, enhance efficiency in capital market activities, strengthen investor protection, and promote investors' confidence. The LRs has been periodically revised by the Bursa Malaysia, with the approval from the SC, to include a number of key corporate governance provisions, covering non-financial and material disclosure, rules for related party and major transactions, and the audit committee in PLCs. Nevertheless, the World Bank (2012) notes a few omissions in the LRs, including clear requirements to disclose key risk factors and the details of board

member pay and independence, and the confirmation of the independence of external auditor.

Furthermore, the Companies Commission of Malaysia (CCM) has been established through the enactment of the Companies Commission of Malaysian Act 2001 to further improve the surveillance and enforcement of corporate legislation. The CCM is a statutory body formed following the merger of the Registry of Companies (ROC)[18] and the Registry of Business (ROB)[19]. The CCM is responsible for the administration and enforcement of the legislative acts, which include Companies Act 1965, Registration of Business Act 1956, Trust Companies Act 1949, Kootu Funds (Prohibition) Act 1971 and any subsidiary legislation made under those acts.

The level of statutory requirements has been considerably improved after the 1997 financial crisis to enhance the corporate governance system in Malaysia. The amendments to the existing legislation and the introduction of new legislation have further strengthened the enforcement of laws.

2.5.3.2 Institutional Development

The development of corporate governance in Malaysia has been complemented by institutional development. The Malaysian Institute of Corporate Governance and the Minority Shareholder Watchdog Group have been established in the aftermath of the 1997 financial crisis to enhance the corporate governance practices in Malaysia.

(i) Malaysian Institute of Corporate Governance

The Malaysian Institute of Corporate Governance (MICG) is established by the Finance Committee in March 1998. It is a non-profit public company limited by guarantee, with founding members consisting of the Federation of Public Listed Companies, Malaysian institute of Accountants, Malaysian Institute of Certified

[18] The formation of the ROC during the British colonial period in year 1898 marked the beginning of business registration in Malaysia. All companies incorporated in Malaysia, then under the Companies Act 1965, are mandatory to register with the ROC, a body that has the regulatory role over those companies.

[19] The ROB is established in year 1939 and is responsible for the registration of other businesses, which include sole proprietorships and partnerships.

Public Accountants, Malaysian institute of Chartered Secretaries and Administrators, and Malaysian Institute of Directors. The missions of the MICG include: i) promoting corporate governance; ii) defining corporate governance best practices, and iii) facilitating the adoption of corporate governance best practices.

The Finance Committee Report 1999 acknowledges MICG as 'The Recognised Corporate Governance Training Centre' for raising the awareness and practice of good corporate governance in Malaysia (Malaysian Institute of Corporate Governane 2014). Moreover, MICG provides an independent platform for various stakeholders to interact and debate corporate governance issues to promote continuous improvement in corporate governance best practices.

(ii) Minority Shareholder Watchdog Group

In addition, the Minority Shareholder Watchdog Group (MSWG) is established in August 2000 following the recommendations of the Finance Committee Report 1999. It is a government initiative to protect the interests of minority shareholders through shareholder activism. It is funded by the four founding organisations, which are National Equity Corporation, Social Security Organisation, Armed Forces Fund Board, and Pilgrims Fund Board. Appendix 2.1 shows the details of each organisation. The mission of the MSWG is to promote sustainable shareholder value in companies through engagement with relevant stakeholders, with a focus on minority shareholder interests. Malaysia is the only emerging country in East Asia where the government has institutionalised the shareholder activism, through the creation of such a mechanism.

Over the years, the MSWG has evolved into an independent research organisation focusing on corporate governance matters. It provides a platform and collective voice to both retail and institutional minority shareholders. This has been the first step towards encouraging shareholder activism without resorting to the courts (Minority Shareholder Watchdog Group 2013a). Despite its set up, according to Satkunasingam and Shanmugam (2006), the shareholders rarely take legal action against a company's directors due to cultural factors in Malaysia. Malaysian society is conditioned to accept inequality in power as the norm and Malaysians rarely question or challenge those in

power. As individuals in a collective society, they are not comfortable confronting others, especially in public and when the conflict is with their social superiors. Moreover, the legislature is very much subject to the power of executives and politicians, thus the Malaysian society tends to allow powerful individuals to have rights to certain privileges because of their status (Satkunasingam and Shanmugam 2006). In view of the high power distance and collectivist culture of Malaysia (Haniffa and Cooke 2002), the establishment of the MSWG is relevant in terms of in raising any controversial issues on behalf of minority shareholders.

The explicit connection between the MSWG and minority shareholders originates from the fact that the MSWG provides proxy-voting services to dispersed shareholders and raises issues on behalf of individual shareholders at the annual general meetings (AGMs) (Ameer and Abdul-Rahman 2009). Ameer and Abdul-Rahman (2009) report that the MSWG have attended Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) of the same company more than once from 2006 to 2008 to raise issues that are of potential disadvantage to minority shareholders. Of particular importance among the corporate governance issues raised are the remuneration of directors, ratification of the personal transactions of directors, and due diligence. In 2014, the MSWG's monitoring portfolio numbered 295 companies comprising about 30% of the total number of companies listed on Bursa Malaysia, and representing about 90% of Bursa's total market capitalisation. During the year, the MSWG analysts have attended a total of 400 companies' meetings, comprising 295 AGMs and 105 EGMs. Many issues have been raised for the benefit of minority shareholders in terms of strategic, financial, operational and corporate governance issues. (Minority Shareholder Watchdog Group 2014a).

Ameer and Abdul-Rahman (2009) document that the Malaysian companies targeted by the MSWG earn statistically significantly higher stock returns than non-targeted firms over the long run. Moreover, they report significant increases in the earnings and cash flow from operations in the MSWG-targeted companies as compared to non-targeted companies one year after initial MSWG activism. They document that there is a lack of MSWG involvement in the family companies. Later, Azizan and Ameer (2012) extend the studies of Ameer and Abdul Rahman (2009) by segregating

companies into family-controlled and non-family-controlled. They report that the targeted family-controlled companies have higher cash flows from operations than non-targeted companies as well as an improved financial performance after the shareholders' intervention led by the MSWG. This suggests that the shareholder activism led by the MSWG have disciplined the management of the family companies to improve firms' performance. However, they assert that the management of the family-controlled companies are entrenched and reluctant to change their value-decreasing operations even the concerns are raised by the MSWG.

To recap, Ameer and Abdul-Rahman (2009) and Azizan and Ameer (2012) show that the MSWG plays a critical role in addressing agency problems in Malaysian companies. Its intervention has resulted in improvements in the profitability of companies as well as an increase in shareholder wealth. However, there is a lack of MSWG involvement in family companies, and the family shareholders are entrenched and unwilling to change despite the MSWG has raised concerns on particular issues.

2.5.3.3 Developments of Codes and Best Practices

In addition to statutory legislation and institutional developments, several codes related to corporate governance have been introduced in a continuous effort to enhance the corporate governance practices in Malaysia, such as Malaysian Code on Corporate Governance (MCCG), Corporate Governance Blueprint (CG Blueprint) and Malaysian Code for Institutional Investors (MCII).

(i) Malaysian Code on Corporate Governance (MCCG)

The recognition of corporate governance in Malaysia is significantly evidenced by the release of the Malaysian Code on Corporate Governance (MCCG) in March 2000. The MCCG is derived from the recommendations of the Cadbury Committee Report 1992, Greenbury Committee Report 1995, Hampel Committee Report 1998, and Higgs Committee 2003 in the United Kingdom. Malaysia is the first Asian nation to implement the code on corporate governance. The compliance with the MCCG is voluntary. Notwithstanding this, the revamped LRs 2001, Paragraph 15.26, requires the PLCs to state in their annual reports on the extent of their compliance with the MCCG, and the reasons for any non-compliance.

The MCCG consists of four parts: Part 1 outlines the principles of corporate governance (focuses on the boards of directors, director remuneration, shareholders, accountability and auditing); Part 2 establishes the best practices in corporate governance (focuses on the role of boards of directors, accountability and auditing and shareholding); Part 3 recommends the principle and best practices for other corporate participants (investors and auditors); and Part 4 provides explanatory notes to earlier parts of the MCCG (High Level Finance Committee on Corporate Governance 2000).

The Economist (2015) documents that the introduction of MCCG in the 2000 and its integration with the LRs in the 2001 has an substantial effect on the shareholders' wealth, increasing share price performance by an average of about 4.8%. This suggests that the corporate governance reform is well received by the market. The MCCG has been revised in 2007 to emphasise the role and responsibilities of the board of directors, the audit committee and the internal audit function. Salleh and Haat (2014) report that the audit committee characteristics such as audit committee expertise, audit committee independence, audit committee disclosure, and the frequency of meetings, possess a negative association with earnings management after the revision of MCCG in 2007. This implies that the revised MCCG 2007 has improved the quality and strengthened the effectiveness of the audit committee.

The MCCG has gone through second round of revision in 2012 after taking into account the changing market dynamics, international developments, and the need to continuously recalibrate and enhance the effectiveness of the corporate governance framework (Securities Commission Malaysia 2013). The MCCG 2012 takes effect on 31st December 2012. It sets out 8 broad principles followed by 26 corresponding recommendations. Some of the key amendments and areas that have been strengthened in the revised MCCG 2012 include:

(i) **Independence of independent directors:** The tenure of independent directors is capped to a cumulative period of nine years. The board should provide strong justification to the shareholders for retaining independent directors who have reached the nine-year term limit. Listed companies should seek shareholders' approval at the nearest AGM before the director reaches the nine-year term limit.

Shareholders' approval should be sought annually after the nine-year term limit. The rotation of independent directors within a group of companies is not advisable. Failure to seek shareholders' approval for the extension of the tenure of any independent director prior to the nine-year term limit must be explained in the annual report.

(ii) **Separation of Chairman and CEO:** The positions of Chairman and CEO should be held by different individuals and the chairman must be a non-executive member of the board. Where the Chairman is not an independent director, the board should comprise a majority of independent directors. The responsibilities of the Chairman should include leading the board in the oversight of management, while the CEO focuses on the day-to-day management of the company and this division should be clearly defined in the board charter. Listed companies that do not comply with any of the recommendations of the MCCG 2012, including the separation of the positions of chairman and CEO, must explain their circumstances and reasons or justifications for doing so in their annual report.

(iii) **Remuneration of directors:** The board should establish formal and transparent remuneration policies and procedures to attract and retain directors. A Remuneration Committee can perform this function.

(iv) **Relationship between company and shareholders:** The board should encourage shareholder participation at general meetings and voting on resolutions by way of poll. The board is encouraged to put substantive resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution. Substantive resolutions are those which are not procedural and administrative in nature; for example, the appointment of directors and auditors, approval for issuance of shares, share buy-backs, related party transactions and resolutions that are tabled by way of supplementary circular to shareholders.

(Securities Commission Malaysia 2013)

On the back of the development in corporate governance, this study is expected to a make timely contribution by investigating the effectiveness of key corporate governance attributes strengthened by the revised MCCG 2012; the independent variables of this study include the tenure of independent directors, CEO-chairman role duality, remuneration committee, and institutional investors (shareholders); whilst the remuneration of executive directors is the dependent variable.

(ii) Corporate Governance Blueprint 2011 (CG Blueprint)

In July 2011, the SC has introduced the Corporate Governance Blueprint 2011 (CG Blueprint), to engender a shift in corporate governance culture from mere compliance with rules to one that more fittingly captures the essence of good corporate governance. The CG Blueprint outlines the strategic initiatives aimed at reinforcing individual and market discipline, and promoting greater internalisation of the culture of good governance. There are 35 broad recommendations in total. One of the recommendations in CG Blueprint is the formulation of a new-industry-driven code for institutional investors. The new code requires institutional investors to explain how corporate governance has been adopted as an investment criteria and the measures they have taken to influence, guide and monitor investee companies. In addition, it stipulates that the institutional investors should intervene when there are concerns about the issues such as the investee company's strategy, operational performance, acquisition or disposal strategies, any failures in internal controls, inadequate succession planning, inappropriate remuneration packages, and the failure of independent directors to properly hold executive management to account . The CG Blueprint is aimed at deepening the relationship of trust between companies and stakeholders (Securities Commission Malaysia 2011).

(iii) Malaysian Code for Institutional Investors 2014 (MCII)

Institutional investors can sometimes exert a significant influence on corporate governance, especially when they hold significant stakes in their investee companies. Recognising their important role, the SC and MSWG have jointly launched the Malaysian Code for Institutional Investors on 24th June 2014, which is the first of such initiative in the ASEAN region. The MCII is one of the deliverables of the CG Blueprint and is collectively developed by Malaysia's largest institutional investors,

namely Employees Provident Fund (EPF), Retirement Fund (KWAP), Armed Forces Fund Board (LTAT), National Equity Corporation (PNB), Social Security Organisation (SOCSO), and Pilgrims Fund Board (LTH).

The MCII is a voluntary code which sets out the broad principles of effective stewardship by institutional investors, followed by the guidance to help institutional investors understand and implement the principles. The MCII states that institutional investors are the major players in the global economy that can exert a significant influence over their investee companies. They should be committed to effective corporate governance and consider acting collectively with other investors where appropriate to promote good corporate governance (Securities Commission Malaysia and Minority Shareholder Watchdog Group 2014). The MCII provides guidance on effective exercise of stewardship responsibilities towards the delivery of sustainable long-term value to the institutional investors' ultimate beneficiaries or clients. There are six key principles for institutional investors: 1) disclose the policies on their stewardship responsibilities; 2) monitor their investee companies; 3) engage with investee companies as appropriate; 4) adopt a robust policy on managing conflicts of interest which should be publicly disclosed; 5) incorporate corporate governance and sustainability considerations into the investment decision-making process; and 6) publish a voting policy.

The recommendations for institutional investors in the MCCG, the CG Blueprint as well as the issuance of the MCII clearly demonstrate that the Malaysian government relies on the institutional investors to enhance the corporate governance practices of listed companies. However, the monitoring role of institutional investors in governing the investee companies has yet to be tested empirically. This study makes a timely contribution by investigating the influence of institutional investors on executive remuneration in an enhanced corporate governance landscape.

The evolution of corporate governance discussed, including statutory and non-statutory legislations is summarised in Table 2.1. For the purpose of this study, the milestone of corporate governance development is described up till 2014. The MCCG has been further revised in 2017. While the key principles and recommended practices

in the revised MCCG 2012 remains largely intact, the revised MCCG 2017 emphasises the strengthening of the independence of board directors, board diversity, transparency of directors remuneration, audit committee, and risk management committee, among others (Securities Commission Malaysia 2017) .

Table 2.1: Milestones of the corporate governance development in Malaysia

Year	
1965	Enactment of Companies Act 1965
1973	Establishment of Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) and Listing Requirements (LRs)
1973	Enactment of Securities Industry Act (SIA)
1987	Introduction of Malaysian Code on Takeovers and Mergers
1993	Establishment of Securities Commission (SC) under the enactment of Securities Commission Act
1996	Introduction of Guidelines on Voluntary Codes of Company Directors and Company Securities by Registrar of Companies (ROC)
1997	Legislation of Financial Reporting Act
1998	- Establishment of High Level Finance Committee on Corporate Governance (FCCG) by the Ministry of Finance - Establishment of Malaysian Institute of Corporate Governance (MICG)
1999	Publication of FCCG Report
2000	- Establishment of Minority Shareholder Watchdog Group (MSWG) - Introduction of Malaysian Code on Corporate Governance (MCCG)
2001	Establishment of Companies Commission of Malaysia (CCM) under the enactment of Companies Commission of Malaysian Act
2007	Revision of MCCG
2011	Introduction of Corporate Governance Blueprint
2012	Second revision of MCCG
2014	Introduction of Malaysian Code for Institutional Investors (MCII)

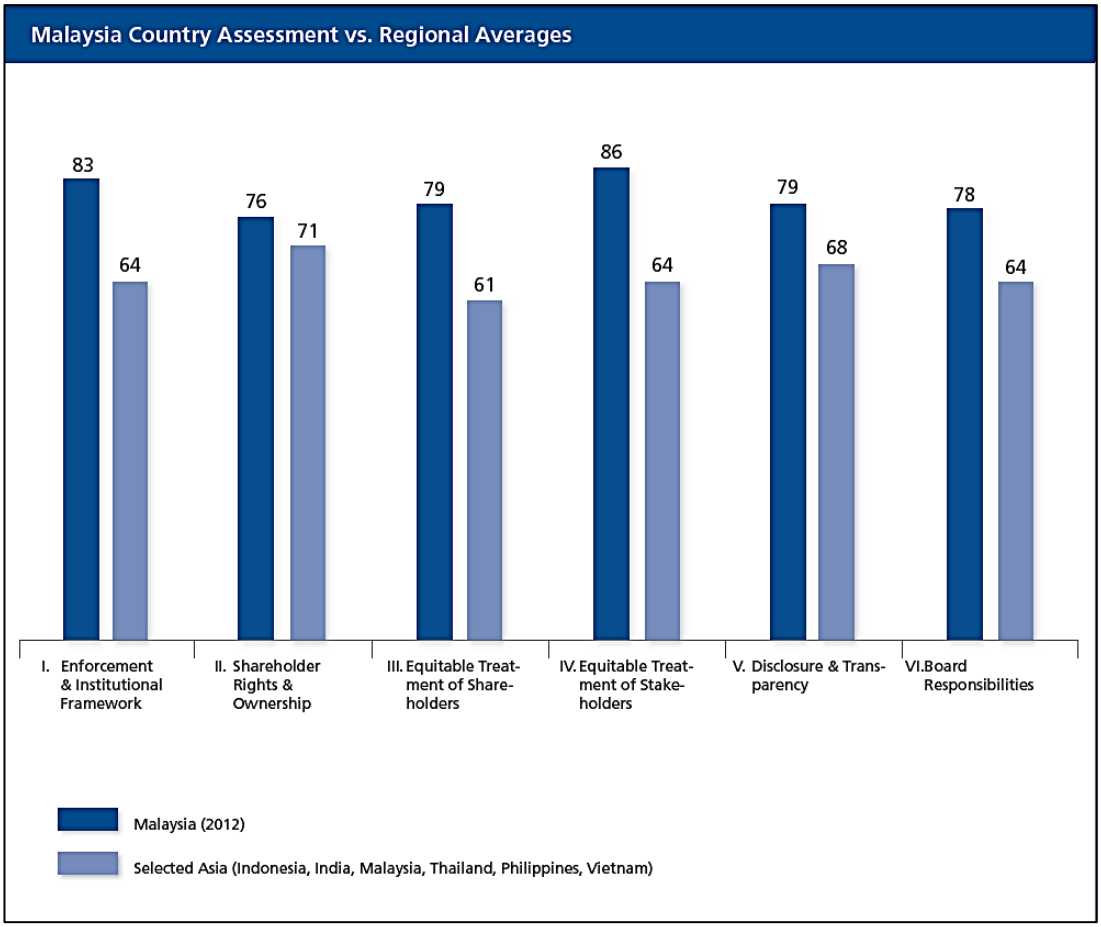
2.6 Effectiveness of the Malaysian Code on Corporate Governance

This section discusses the current standing of Malaysian corporate governance based on the findings of the Report on the Observance of Standards and Codes by the World Bank (2012), the Balancing Rules and Flexibility Study by KPMG and ACCA (2014), and the Malaysia-ASEAN Corporate Governance Report by the Minority Shareholder Watchdog Group (2015, 2014b, 2013a, 2012b).

2.6.1 Report on the Observance of Standards and Codes

According to the Report on the Observance of Standards and Codes 2012[20], Malaysia's individual score has surpassed the average of six Asian countries, namely Indonesia, India, Malaysia, Thailand, the Philippines and Vietnam. Figure 2.3 shows the assessment of Malaysia's corporate governance score versus regional averages. The gaps ranges between 5% and 22%. The assessment reveals that Malaysia is a regional leader in corporate governance and has achieved high levels of compliance in a number of key areas, both fundamental as well as sophisticated subjects such as the prohibition of insider trading and implementation of high-quality accounting standards (The World Bank 2012).

Figure 2.3: Malaysia's corporate governance versus regional averages assessment



Source: The World Bank (2012)

[20] The Reports on the Observance of Standards and Codes (ROSC) is a joint initiative of the World Bank and IMF to help member countries to strengthen their financial systems by improving compliance with internationally recognised standards and codes. It is introduced as part of a series of measures to strengthen the international financial architecture after the 1997-1998 financial crisis.

2.6.2 Balancing Rules and Flexibility Study by ACCA and KPMG

The Balancing Rules and Flexibility Study is a study of corporate governance requirements by ACCA and KPMG across 25 markets, including 10 developed countries and 15 developing countries. The study focuses on the clarity, degree of enforceability, and the number and type of instruments used by the markets analysed. It also calls for the governments to work towards meeting global requirements based on the OEDC Principles of Corporate Governance.

Table 2.2: High scoring markets in the development of corporate governance

Highest scoring markets
1. United Kingdom**
2. United States**
3. Singapore**
4. Australia** (equal 4th)
5. India* (equal 4th)
6. Malaysia* (equal 4th)
7. Hong Kong** (equal 7th)
8. Russia* (equal 7th)
9. Brazil*
10. Taiwan**
Mid-range scoring markets
11. South Africa* (equal 11th)
12. Thailand* (equal 11th)
13. Korea**
14. UAE*
15. New Zealand**
Lowest scoring markets
16. Philippines*
17. Indonesia*
18. Canada**
19. China*
20. Cambodia*
21. Japan**
22. Vietnam*
23. Myanmar*
24. Brunei* (equal 24th)
25. Laos* (equal 24th)
** denotes developed country * denotes developing country

Source: KPMG and ACCA (2014)

The 2014[21] study reports that Malaysia (along with India) is leading other developing countries in corporate governance requirements, as shown in Table 2.2. Overall, Malaysia has emerged fourth (jointly with India and Australia) out of 25 countries, scoring just below the developed countries, namely United Kingdom, United States and Singapore, in the development of corporate governance requirements. Malaysia has adopted a balanced approach, consisting of a blend of legislation, the CG Codes and guidelines.

Nevertheless, there are some areas that have been flagged as being less well-defined in Malaysia's corporate governance framework, such as disclosure on the director's time and resources, stakeholder engagement, risk governance, shareholder rights and remuneration structure, which warrant closer study (KPMG and ACCA 2014).

2.6.3 ASEAN Corporate Governance Scorecard

The ASEAN Corporate Governance Scorecard, funded by the Asian Development Bank, is one of the initiatives under the ASEAN Capital Markets Forum to raise corporate governance standards in companies from the region. It provides a rigorous methodology benchmarked against international best practices including the OECD principles of corporate governance to assess the corporate governance performance of publicly listed companies in the six participating ASEAN member countries, namely Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. This methodology provides comparable information for foreign investors and external fund managers to facilitate their investment decision-making.

The Minority Shareholder Watchdog Group[22] uses the ASEAN Corporate Governance scorecard to assess Malaysian PLCs and their compliance with the recommended principles and best practices of corporate governance. Table 2.3 shows the trend on corporate governance average base score from 2009 to 2015. Based on the score points, Malaysian PLCs show an improvement in corporate governance practices over time. The average base score of 60.23 points in 2014 is slightly lower than the 61.59 points

[21] The last Balancing Rules and Flexibility Study is conducted in 2014.

[22] The Minority Shareholder Watchdog Group is appointed by the Securities Commission Malaysia as the Domestic Ranking Body to use ASEAN Corporate Governance Scorecard.

the previous year. The decline could be attributed to more parameters in the ESG & Sustainability areas that smaller companies are not able to cope with, hence contributing to the lower average score (Minority Shareholder Watchdog Group 2014b).

Table 2.3: Trend on corporate governance average base score from 2009 to 2015

Year	No. of companies assessed	Average Base Score
2009	899	52.00
2010	898	55.60
2011	820	57.50
2012	500	56.70
2013	862	61.59
2014	873	60.23
2015	870	62.98

Source: Minority Shareholder Watchdog Group (2015)

In relation to the directors' remuneration, based on the Malaysia-ASEAN Corporate Governance Report 2015, there remains insufficient disclosure of directors' remuneration by Malaysian PLCs. Only a small fraction, about 9% of the companies assessed in 2015 compared to 8% in 2014, disclose the details of remuneration of each director, including the CEO. In 2015, only 27% or 234 of the 870 companies provides the shareholders the opportunity, as evidenced by the agenda item, to approve total remuneration. Malaysian PLCs are predominately represented by family companies, whereby most of the shareholders and directors are related by family relationships. The family shareholders have a tendency to approve remuneration packages of their family members based on emotion and incumbent ties.

2.6.4 Complaints and Concerns of Investors

Although Malaysia fares relatively high in corporate governance scoring among Asian countries, investors have expressed concern over the implementation of corporate governance. Specifically, in 2011, the MSWG receives several investor complaints concerning minority rights being sidestepped, certain rights not offered to minority shareholders, sales of shares at a premium by major shareholders but not accorded to the minority shareholders, insider trading, etc. (Minority Shareholder Watchdog Group 2011). The MSWG finds out that a director is paid approximately RM33.4 million in 2012 compared to about RM8.4 million in 2011, a huge increase of around

300%. The remuneration is a sharp increase in one year and constitutes roughly 14% of the company's net profit of RM232.70 million for the year (Minority Shareholder Watchdog Group 2013a).

In 2013, the MSWG receives several complaints from the investors, requesting the MSWG to take up their issues collectively. Among others, the issues concern about the questionable related party transactions, excessive remuneration, and minority shareholders' rights being side-lined (Minority Shareholder Watchdog Group 2013a). Again, in 2014, investors have requested the MSWG to raise their issues, which include excessive directors' remuneration, and selective disclosure of materials (Minority Shareholder Watchdog Group 2014a). Since 2011, the concern of investors has centred on the issues of expropriation of minority rights, excessive directors' remuneration and other corporate governance issues.

2.7 Summary

Corporate governance has attracted global attention when large companies such as Enron in the United Kingdom and WorldCom in the United States collapsed in 2001 and 2002 respectively. Whereas in Asia, prior to the turmoil of the 1997 Asian financial crisis, corporate governance does not appear to be emphasised. The 1997 Asian financial crisis is the watershed for the corporate governance evolution in Malaysia. Nevertheless, it should be noted that a number of no less significant governance measures have been introduced prior to 1997. Some earlier local corporate scandals in Malaysia have contributed to the impetus for greater corporate governance regulations. However, this effort has been done in a piecemeal manner. After the 1997 financial crisis, the Malaysian government and market regulators have taken proactive approaches to transform the corporate governance landscape in an attempt to enhance corporate transparency and accountability, as well as to rebuild the confidence of investors. The Malaysian Code on Corporate Governance, introduced in 2000, is the key instrument of corporate governance in Malaysia.

CHAPTER THREE: LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

3.0 Introduction

This chapter reviews the relevant literature as a prelude to the development of the hypotheses. The literature review provides a basis for understanding the area of research on executive remuneration. The hypotheses are formulated to test the association between executive remuneration and (i) family participation on board, (ii) corporate governance mechanisms, and (iii) institutional ownership.

This chapter reviews four strands of literature on family companies, executive remuneration, corporate governance mechanisms, and institutional ownership. The organisation of this chapter is as follows. Section 3.1 reviews the literature on agency theory. Specifically, Type I agency conflict in the widely held companies and Type II agency conflict in the companies with concentrated ownership structure are reviewed. Section 3.2 discusses the family companies where the Type II agency conflict is their prevalent corporate governance issue. This section presents the operational definitions of family companies used by prior studies and provides a general understanding of the features that are unique to a family company. Section 3.3 reviews the past studies on executive remuneration. Section 3.4 provides an overview of family companies and executive remuneration in the Malaysian context. Section 3.5 discusses the literature related to family participation on board, corporate governance mechanisms, and institutional ownership; thereafter lead to the hypotheses development. Section 3.6 shows the conceptual schema of this study. Lastly, section 3.7 provides the summary of this chapter.

3.1 Agency Theory

The mainstream literature explains accounting policy choices on the basis of agency theory (Godfrey et al. 2006). Although there are other economic theories, Morris (1987) states that these theories are closely linked and conceptually consistent with the agency theory tenets discussed below. Agency theory is cited most often to explain the managerial decision making (Watts and Zimmerman 1990). Agency theory, derived from the positivist accounting theory, is the most influential accounting research

approach in explaining and predicting economic-based phenomena. Agency theory has long been employed as the theoretical framework by the remuneration studies (Jensen and Murphy 1990; Conyon and Peck 1998; Murphy 1999; Cyert, Kang and Kumar 2002; Elston and Goldberg 2003; Grinstein and Hribar 2004; Combs et al. 2007; Devers et al. 2007; Sapp 2008; Lim and Yen 2011; Theeravanich 2013; Veliyath et al. 2016).

The separation of ownership and control in large corporation is first popularised by Berle and Means (1932). It has since been examined extensively in the academic literature. Jensen and Meckling (1976) formalise the conflicts of interest arose due to the separation of ownership and control in their agency theory and define an agency relationship as a contract in which the principals delegate the authority to the agents to perform some tasks on their behalf. In the context of a company, the agents such as the board of directors and managers perform tasks on behalf of the principals such as shareholders (Godfrey et al. 2006).

Jensen and Meckling (1976) postulate that the separation of ownership and control provides management with the incentive to pursue self-serving utility-maximising behaviour at the expense of shareholders' interests. The cornerstone of classical agency theory is that the interests of shareholders and managers tend to diverge. The managers are self-motivated and the goals of shareholders and managers conflict due to the non-alignment of their interests. The managers can use their discretion to benefit themselves personally via several ways such as empire building (Williamson 1964). Some actions of the managers may be hidden from the shareholders, known as moral hazard problem; the managers may pursue an agenda at the expense of shareholders without incurring punishment from the shareholders (Holmström 1999).

Eisenhardt (1989) illustrates how the conflict between a company's shareholders and its managers may arise. Generally, when the managers' wealth is not tied directly to the firm value by share ownership, the managers may behave opportunistically to maximise their own welfare. They may misuse their power and influence for pecuniary benefits or other advantages, and may not take appropriate risks in pursuance of the shareholders' long-term wealth maximisation interests. In the context of a company,

the crux of the matter is the possible information asymmetry between the managers and shareholders. The agency relationship dictates that the managers have an information advantage. The managers are opportunistic and are strongly motivated to take profit from the information asymmetry between them and the shareholders (Fama and Jensen 1983). Consequently, the shareholders may face dilemmas due to their inability to accurately evaluate and determine the value of decisions made. The managers may therefore take advantage of the unobservability of their actions to engage in the activities that enhance their personal goals. Losses resulting from the managers' bounded self-interests motivate shareholders to bear agency costs in order to avoid suffering loss (Alchian and Woodward 1988). Jensen and Meckling (1976) divide these agency costs as those comprising (i) monitoring cost incurred by the principals to control the agents' behaviour, (ii) bonding costs whereby the agents try to show they are not self-serving, and (iii) residual loss as a result of agents' decision that diverge from the principals' interest. The managers bear these costs as the greater these costs, the lower the rewards. Hence, the focus of the classical agency theory is on determining the most efficient contract governing the principal-agent relationship in a company (Jensen and Meckling 1976; Eisenhardt 1989).

Agency theory advocators suggest that an optimal remuneration contract could align the interests of managers with that of the shareholders (Jensen and Murphy 1990). In the agency model, shareholders set the remuneration of managers, and that remuneration should be based on the firm performance. However, Bebchuk and Fried (2004) refute this optimal contracting approach of remuneration. They argue that the managers have the power to influence their own remuneration packages and obtain remuneration more favourable than they would get under the arm's length bargaining with shareholders. Their power enables them to extract rents[23]. Geiler and Renneboog (2011) coincide with the arguments of Bebchuk and Fried (2004) by providing the evidence of managerial self-dealing, abuse of managerial power and various forms of hidden remuneration. Succinctly, executive remuneration induces agency problem rather than mitigating it.

[23] Rents refer to the excess returns that the individuals obtain due to their positional advantages (Bebchuk and Fried 2004).

The agency problem in a company gives rise to corporate governance issue (Hart 1995). Much discussions on corporate governance problem highlight the failure of managers to act in the best interests of the shareholders in widely held companies. The goal divergence and different risk preference between the shareholders and management are the fundamentals of agency problem.

Agency problem arises due to the separation of ownership and control (Jensen and Meckling 1976; Berle and Means 1932), thus theoretically, family companies face less severe agency conflict (McConaughy 2000) as the controlling shareholders tend to appoint their family members to the top management team (Moores and Craig 2008; Chen, Hsu and Chen 2014). In other words, there is a limited separation between the ownership and control in a family company. Schulze et al. (2001) refute Jensen and Meckling's agency model as it ignores the agency threats in the owner-managed companies. Gomez-Mejia, Larraza-Kintana, and Makri (2003) and Steier (2003) proclaim that the agency issues in family companies are more complex due to the juxtaposition of economic and non-economic goals. In the last decade, the researchers in finance and economies have increasingly realised that the traditional conceptualisation of principal-agent conflict does not account for the reality of principal-principal conflict (see section 3.1.2) that is prevailing in the companies with concentrated ownership structure (Young et al. 2008). The controlling shareholders (principals) may seek private benefits or expropriate at the expense of minority shareholders (another principals) in many ways, such as transfer of assets to the controlling shareholders at non-market price, consuming perquisites, special dividends, excessive remuneration arrangement, and tunneling activities (Johnson et al. 2000; Anderson and Reeb 2003; Faccio, Lang and Young 2001).

In a nutshell, there are two types of agency conflicts: (i) principal-agent conflict or popularly known as Type I agency conflict (Jensen and Meckling 1976); and (ii) principal-principal conflict or best known as Type II agency conflict (Shleifer and Vishny 1997). The former exists between the shareholders (principals) and management (agents) when the ownership and control are separated, while the latter exists between the controlling shareholders and minority shareholders in the companies with concentrated ownership structure, such as family companies. Section

3.1.1 and section 3.1.2 discuss the principal-agent conflict and principal-principal conflict respectively.

3.1.1 Principal – Agent Conflict / Type I Agency Conflict

Principal-agent conflict, or known as the Type I agency conflict, spans from the notion that there is mismatching of interests between the shareholders (principal) and management (agent) of a company. Classical agency theory states that there is an inherent conflict between a company's shareholders and its management; the management may not always act in the best interests of shareholders. The shareholders are interested in maximising firm value, but the managers tend to enhance personal wealth, job security, and prestige (Jensen and Meckling 1976). When the ownership and control are separated, the managers have substantial power. They may use their power and discretion to benefit themselves personally, which deviate from the shareholders' interests (Shleifer and Vishny 1997).

When this incongruence of interest exists, the shareholders find way to reduce the possibility of opportunistic actions undertaken by the managers. In order to ensure the managers act in the best interest of the shareholders, the agency theory advocators maintain that the remuneration of managers should depend on the firm performance (Murphy 1986; Jensen and Murphy 1990). An optimal remuneration contract will tie the managers' utility to shareholders' wealth by depending on verifiable performance benchmarks (Jensen and Murphy 1990). Under the optimal contracting approach, remuneration design is viewed as a remedy to mitigate the agency conflict between the shareholders and managers. Its notion is that, shareholders design optimal remuneration packages to provide the managers with incentives to align their mutual interests (Jensen and Murphy 1990).

Nonetheless, Bebchuk and Fried (2004) criticise the optimal contracting view of remuneration, instead they propose managerial power approach. They argue that the managers in the publicly traded companies without a controlling shareholder could use their substantial power to extract remuneration more favourable than they could obtain under the arm's length bargaining with the shareholders. In other words, the managers have the power to design their own remuneration packages when the ownership and

control are separated. Besides, prior studies have pointed out some features of remuneration design which seem to reflect managerial rent-seeking rather than the provision of efficient incentives (Blanchard, Lopez-de-Silanes and Shleifer 1994; Yermack 1997; Bertrand and Mullainathan 2001; Geiler and Renneboog 2011). Thus, agency problem manifests itself in the remuneration design when the ownership and control are separated.

One of the central problems in a principal-agent relationship is the executive behaviours are unobserved by the shareholders (Jensen and Meckling 1976). The shareholders find it difficult to observe how the executives operate and manage the company. Fama and Jensen (1983) put forward that the board of directors can be considered as a monitoring mechanism to address the principal-agent problem. Shareholders elect the board of directors to act on their behalf, and the board in turn monitors the top management and ratifies major decisions (Hart 1995). However, the effectiveness of board is doubtful. This is because the board consists of executive directors and non-executive directors; it would hardly be reasonable to expect the executive directors to monitor themselves (Hart 1995). Hence, external or non-executive directors are required to be part of a board in order to monitor board activities and represent shareholders (Fama and Jensen 1983; Hassan, Christopher and Evans 2003; Husnin, Nawawi and Salin 2016).

Nonetheless, there are controversial views on the monitoring role played by the external or non-executive directors on board (Hart 1995). According to Hart (1995), they may not do a very good monitoring job for several reasons. Firstly, the non-executive directors may hold more important or executive positions in other corporate boards and probably have little time to monitor the company's affairs. Core, Holthausen, and Larcker (1999) concur with the former by showing CEO remuneration is higher when the external directors serve on more than three other boards. Secondly, the non-executive directors may not have any significant financial interests in the company; hence, they may have little to gain personally from the improvement in firm performance (Hart 1995). Thirdly, the non-executive directors owe their positions to the management who proposed them as the directors. Thus, they would show their

loyalty to the management in order to be re-elected and continue to collect fee (Hart 1995).

To address the board ineffectiveness and alleviate the agency problems, the policy makers and regulators introduce several corporate governance principles and reports, among others, the Cadbury Committee Report 1992, Greenbury Report 1995, and Hampel Committee Report 1998. These codes on corporate governance principles recommend numerous best practices to enhance the board autonomy. For instance, the board chairman should be independent, the roles of board chairman and CEO should be separated, there should be a balance between executive and non-executive directors, there should be a formal selection procedure for non-executive directors, executive directors' pay should be subject to the deliberations of a remuneration committee, the remuneration committee should consist mainly or entirely of non-executive directors, to state a few. (Cadbury Committee 1992; Greenbury Committee 1995; Hampel Committee 1998). In the similar vein, the Malaysian Code on Corporate Governance (MCCG) stipulates several corporate governance recommendations such as the role separation of CEO and board chairman, independence reinforcement of independent directors, establishment of remuneration committee to design remuneration packages, to state a few. Core, Holthausen, and Larcker (1999) document that the companies with weaker corporate governance structures have greater agency problems, and that CEOs at companies with greater agency problems receive high remuneration. Their findings report that CEO remuneration is higher when the CEO is also the board chairman and the external directors are appointed by the CEO. Further, Basu et al. (2007) find out that the top executive remuneration is higher in the companies with weaker corporate governance mechanisms. Their results unveil that the companies with weaker corporate governance mechanisms have greater principal-agent problems, and the top executives in these companies receive higher pay. On this premise, corporate governance mechanisms are highly recognised and recommended by the policy maker and prior studies to ameliorate the principal-agent problem.

Furthermore, prior literature suggests that institutional investors could serve as an external monitoring mechanism to mitigate the principal-agent problem (Janakiraman, Radhakrishnan and Tsang 2010; Hartzell and Starks 2003; Shleifer and Vishny 1997).

Shleifer and Vishny (1997), by comparing the effectiveness of institutional shareholders in monitoring corporate managers across different countries, conclude that institutional investors help to ameliorate agency problems and pressure the management of investee companies to improve the firm performance. Besides, Hartzell and Starks (2003) find out the institutional ownership is positively related to the pay-for-sensitivity. Janakiraman, Radhakrishnan, and Tsang (2010) report that the institutional ownership is more negatively associated with executive remuneration in the companies with low level of managerial ownership than in the companies with high level of managerial ownership. McCahery, Sautner, and Starks (2016) note that the intervention of institutional investors in management is primarily driven by the concerns about corporate governance or strategy rather than the short-term issue. Recognising the importance of institutional investors in enhancing the corporate governance and alleviating the agency conflict, the Securities Commission Malaysia and Minority Shareholder Watchdog Group launched the Malaysian Code for Institutional Investors (MCII) in 2014 (see section 2.5.3.3). Being the first of such code in the ASEAN region, the MCII provides guidance on the effective exercise of stewardship responsibilities towards the delivery of sustainable long-term value to the institutional investors' ultimate beneficiaries or clients.

The classical agency theory is based on the premise that the managers will not manage a company as diligently as the owners expected when the ownership and control are separated (Jensen and Meckling 1976; Fama and Jensen 1983). Corporate governance mechanisms such as the board of directors and institutional investors are suggested by prior literature (Fama and Jensen 1983; Shleifer and Vishny 1997; Hartzell and Starks 2003; Basu et al. 2007; McCahery, Sautner and Starks 2016) and recommended by policy makers and regulators (Cadbury Committee 1992; Greenbury Committee 1995; Hampel Committee 1998; Securities Commission Malaysia 2012) to alleviate principal-agent problem.

3.1.2 Principal – Principal Conflict / Type II Agency Conflict

The theoretical analysis of the impact of family ownership on agency costs is that: compared to the widely held companies with a dispersed ownership structure, family companies with a concentrated ownership structure are less exposed to the agency

problem due to the limited degree of separation between ownership and control (Carrasco-Hernandez and Sánchez-Marín 2007; McConaughy 2000). According to Anderson and Reeb (2003), the founding family of a company tends to hold concentrated ownership and usually appoints their family members to hold the top management positions. The commitment of family would lead to more intense monitoring of managers' behaviour, thereby minimising the principal-agent problem that frequently exists in the widely held companies. They find out the family companies perform better than the non-family companies.

Nevertheless, there is an argument that the family ownership and control is detrimental. Morck, Shleifer, and Vishny (1988) document that there are potential agency costs to the minority shareholders from having an entrenched controlling shareholder. Faccio, Lang, and Young (2001) relate that family control leads to wealth expropriation and hampers the firm performance. In addition, Gomez-Mejia, Nunez-Nickel, and Gutierrez (2001) report that family ownership and control is associated with greater managerial entrenchment in the Spanish companies.

Another type of agency conflict arises when the controlling shareholders and/or their family members involved in the management. There is a probability of expropriation of minority shareholders by the controlling shareholders who are managing the companies. This is known as principal-principal problem or Type II agency conflict (Shleifer and Vishny 1997). In a family company, the family enjoys substantial control as a result of concentrated ownership and domination of the board directorship (Ali, Chen and Radhakrishnan 2007). This control gives the family power to seek private benefits at the expense of minority shareholders.

In the last decade, the researchers in finance and economies have increasingly realised that the traditional conceptualisation of principal-agent conflict does not account for the reality of principal-principal conflict that is prevailing in the family companies (Young et al. 2008). Gomez-Mejia, Larraza-Kintana, and Makri (2003) and Steier (2003) maintain that the agency issues in family companies are more complex due to the juxtaposition of economic and non-economic goals of the family. The restricted ownership weakens the external governance and gives rise to the problems of self-

control when a company is led by a powerful shareholder (Schulze et al. 2001). Filatotchev, Zhang, and Piesse (2011) contend that family shareholders have the motivations of using private information to extract private benefits at the expense of minority shareholders for their own financial gain within a less transparent corporate structure. This contention concurs with the information asymmetry as advocated in extant literature (Berle and Means 1932; Akerlof 1970; Shleifer and Vishny 1997). In the context of the companies with concentrated ownership structure, the controlling shareholders have an information advantage over the minority shareholders. The minority shareholders are disadvantaged by their inability to accurately evaluate and determine the value of the decisions made by the owner-managers. Principal-principal conflict and the lack of protection of minority shareholders have been highlighted as the major corporate governance issues in the emerging economies (Fan and Wong 2005; Young et al. 2008).

Based on the studies of Claessens, Djankov, and Lang (2000) on nine East Asian countries, Malaysia is among the four countries that shows a high degree of expropriation of minority shareholders. In Malaysia, the majority of public listed companies have concentrated ownership structure, and that ownership is typically concentrated in the hand of a family (Carney and Child 2013; Claessens, Djankov and Lang 2000). Thus, the principal-principal problem is likely to be more prevalent in the Malaysian context and is more applicable to this study. The prominent agency problem in family company is not that of diverging interests between the shareholders and management as suggested by classical principal-agent approach. Rather, it is the family's incentive to extract private benefits at the expense of minority shareholders (Barontini and Bozzi 2011). In the family companies, the major agency problem occurs between the controlling and minority shareholders (Young et al. 2008). The conflict is exacerbated due to the minority shareholders having little opportunity to monitor the activities of controlling shareholders or to check their power within the companies.

The predominance of family companies shapes particular corporate governance challenges and opportunities not always considered in the markets where the ownership is dispersed and the management is mainly composed of external and hired specialists (OECD 2009). Arcot and Bruno (2012) report that the ownership structure

affects a company's compliance with corporate governance provisions. In particular, they find out the family companies are less likely to comply with corporate governance standards, especially with the provisions related to the monitoring role of the board (e.g. the existence of independent non-executive directors). They also document that family shareholders endogenously choose the company's optimal governance structure, which does not conform to the standard governance practices recommended or prescribed by law. Young et al. (2008) proclaim that the Type II agency conflict in companies with concentrated ownership structure alters the dynamics of the corporate governance process and hence, requires mechanisms different from those deals with traditional Type I agency conflict. On this premise, it is ambiguous whether the board of directors and institutional investors suggested by prior literature and policy makers to mitigate Type I agency conflict in widely held companies are applicable to lessen the Type II agency conflict in family companies with concentrated ownership structure. This study directly addresses these theoretical and empirical gaps over a period where there are changes in corporate governance landscape. The next section reviews the nature and dynamics of family companies which are considered as ubiquitous form of corporate establishment.

3.2 Family Companies

Family business is the most pervasive form of organisation in the world (LaPorta, Lopez-de-Silanes and Shleifer 1999; Burkart, Panunzi and Shleifer 2003; Lee 2006; OECD 2009) although the percentage they represent varies according to the operational definition being used and the country being studied. There is no universally accepted operational definition for a family company.

Barnes and Hershon (1976, 106) define family companies as those 'controlling ownership is rested in the hands of an individual or of the members of a single family'. Davis (1983, 47) defines family companies 'are those whose policy and direction are subject to significant influence by one or more family units. This influence is exercised through ownership and sometimes through the participation of family members in management'. Barry (1989, 293) defines a family company as 'an enterprise that, in practice, is controlled by the members of a single family'. Gallo and Sveen (1991, 181) define family business 'as a business where a single family holds the majority of shares

and has total control, and that family members form part of the management and make the most important business decisions'. Anderson and Reeb (2003) use the shareholdings of a founding family and/or the presence of family members on the board of directors to identify a family company. Chrisman, Chua, and Litz (2004) measure a family company based on (i) ownership; (ii) management; and (iii) an expectation of trans-generational management succession within the family. Poza (2010) defines family companies as those in which (i) two or more members of a single family have an ownership control of 15% or more; (ii) strategic influence by family members on management; (iii) concern for family relationships; and (iv) the possibility of continuity across generations. Croci, Gonenc, and Ozkan (2012) measure a family company based on the shareholdings of a controlling shareholder – company with a controlling family shareholder who has at least 10% of outstanding shares, or alternatively, the largest shareholder owning at least 10% of outstanding shares who is ultimately controlled by a family. Fernando, Schneible, and Suh (2014) classify a company as a family company if the founder and/or his or her descendants hold positions in the top management or on the board of directors or are among the companies' largest shareholders.

Based on the definitions given in past literature, two common features characterise a family company, viz, controlling ownership and family management. In essence, extant literature generally concurs that family involvement via ownership and/or management is what makes the family companies distinctive from other forms of organisation.

In the United States, approximate one-third of all companies in the S&P 500 index are family businesses (Anderson and Reeb 2003). Faccio and Lang (2002) report that about 44% of Western European companies are family-controlled[24]. Based on the studies by Claessens, Djankov, and Lang (2000) and Carney and Child (2013) on nine East Asian countries[25], namely Hong Kong, Indonesia, Japan, Korea, Malaysia,

[24] The percentages of family companies of each Western European country examined by Faccio and Lang (2002) are shown in Appendix 1.1.

[25] The percentages of family companies of each East Asian country examined by Claessens, Djankov, and Lang (2000) and Carney and Child (2013) are shown in Appendix 1.2.

Philippines, Singapore, Taiwan and Thailand, the most common form of corporation is family company. In Asia, most of the family businesses are first-generation companies, in contrast to many family companies in Europe and United States, which are already in their fourth or even fifth generation (Fan et al. 2011).

According to Credit Suisse (2010), the Credit Suisse Family Index comprising the United States and European family-controlled stocks outperformed S&P 500 index, MSCI World index, and DJ Global Titans index from 2002 to 2010. Likewise, Asian family companies delivered superior return on equity (ROE) versus the regional average from 2001 to 2010 (Fan et al. 2011). Taken together, their findings show that family companies around the world deliver superior performance. According to Fan et al. (2011), family companies have been the key engine driving the remarkable development of the Asian economics since the Second World War. They are a crucial source of private wealth creation in Asia over the past few decades, as well as the key players in the strategic industries, commercial activities, and financial markets in the region. In addition, numerous studies attest family companies make an important contribution to a nation's economic growth and wealth creation (Astrachan and Melissa Carey 2003; Basu 2004; Morck and Yeung 2004; Poza 2010; PWC 2016a).

Steier, Chrisman, and Chua (2004) document that the agency issues in family companies are more complex due to the juxtaposition of economic and non-economic goals. There is a need to balance between the family personal goals and multiple stakeholders' objectives such as profits growth. In family companies, the entrenched ownership and asymmetric altruism could create unique agency problems (Schulze, Lubatkin and Dino 2003; Schulze et al. 2001). The parent may be unusually generous to their children and enable them to free-ride, which aggravates the moral hazard problems. Furthermore, the identity, personal pride, and self-concept of family are closely tied to the business, as the family members see their images and reputations are intimately connected to the companies they own (Dyer and Whetten 2006). The perceptions of others on the company directly affect their reputations and images. Due to their intimate attachment to the company, the ability of family members to exercise authority and control over the business represent their emotional satisfaction (Schulze et al. 2001). Morck and Yeung (2004) posit that family companies are highly self-

interested and merely want to protect their own parochial interests. Notwithstanding this, the embedded altruism in family businesses allows family shareholders (principals) and management (agents) to share common interests and be strategically aligned in building the business's core competencies (Chrisman, Chua and Litz 2004; Eddleston, Kellermanns and Sarathy 2008).

The overlap between ownership and management in family companies brings additional challenges to an effective corporate governance structure (Tam and Tan 2007; Jiang and Peng 2011). Family business literature documents that family shareholders may adopt different corporate governance practices in order to protect the family's interests, such as practising CEO-chairman role duality and electing family members to the board of directors rather than hiring external professionals (Tam and Tan 2007; Gomez-Mejia et al. 2011). The board of directors in family company is likely to be less effective in monitoring when family shareholders have strong involvement in the management (Kowalewski, Talavera and Stetsyuk 2010). Family shareholders has an informal yet powerful influence on the way that the companies are run, with both positive and negative outcomes (Schulze, Lubatkin and Dino 2003; Schulze et al. 2001). The family ownership and commitment to the business may be understood as adding value, provided that the company and the controlling family can respond to the concerns of the investor community (OECD 2009).

Based on the prior studies, family companies possess certain advantages (Demsetz and Lehn 1985; Anderson and Reeb 2003; Fan et al. 2011; Zellweger 2017) and disadvantages (Johnson et al. 2000; Faccio, Lang and Young 2001; Villalonga and Amit 2006; Schulze, Lubatkin and Dino 2003). The following sections, 3.2.1 and 3.2.2, discuss the advantages and disadvantages respectively.

3.2.1 Advantages of Family Companies

The particular advantage of a family company, among others, is the alignment of interests between the shareholders and managers who are from the same family (Zellweger 2017; Jensen and Meckling 1976). According to Jensen and Meckling (1976), concentrated ownership and management in the same hands could bring about the alignment of interests between the shareholders and management. The family

relationships between shareholders and managers lead to particular level of trust and goal alignment. The interest alignment could spare family companies costly control and lessen the agency conflict between the shareholders and management, or Type I agency conflict (Zellweger 2017). In other words, having family members in the management and ownership could bring the advantage of aligning the interests of both groups.

In addition, the long-term nature of family relationship is advantageous in monitoring and disciplining managers as the controlling family shareholders can act to mitigate managerial expropriation (Fama and Jensen 1983; Demsetz and Lehn 1985; LaPorta, Lopez-de-Silanes and Shleifer 1999). According to Demsetz and Lehn (1985), the family's historical presence, concentrated ownership, and the control of management place them in an advantageous position to monitor the company. These large and concentrated shareholders have more incentives than the diverse shareholders to avoid the conflicts between shareholders and managers and maximise the firm performance. Since the family's welfare is closely tied to the firm performance, family members have strong incentives to monitor professional managers and the way the company is managed. In short, due to the economic incentive, controlling shareholders monitor the management intensely. Consequently, the free-rider problem associated with non-family companies with diverse shareholders could be lessened. Besides, Credit Suisse (2007) documents that family shareholders often appoint family members to sit on the corporate board with the aim of improving corporate governance and influencing company's strategic orientation. This can prevent the management from pursuing targets that might not be aligned with the interests of the company, such as maximising short-term share price rather than firm value.

Further, James (1999) claims that controlling family has a longer investment horizon, leading to greater investment efficiency. He documents that family companies invest more efficiently than non-family companies because the family shareholders intend to pass the business to succeeding generations. Casson (1999) concurs with this argument by positing that founding families view their businesses as an asset to pass on to their descendants rather than wealth to consume during their lifetimes. Since the controlling family shareholders intend to pass their holdings to the descendants, they have a strong

ground to keep their companies in good condition and their interests lean towards longer term. Unlike the companies with a highly diversified shareholder base, family companies tend to focus less on the next quarterly results and implement strategies that are earnings-accretive over a much longer time horizon (Credit Suisse 2007). According to Fan et al. (2011), Asian family businesses typically focus on long-term investment horizons, rather than boosting current earnings. The long-term perspective Asian family companies do not head for exit during times of market turbulence. Their long-term commitment is exemplified by their frequent share buyback activities during market downturns (Fan et al. 2011).

Moreover, previous studies evident the superior performance of family companies. By using S&P 500 companies, Anderson and Reeb (2003) report that family companies outperform non-family companies and have higher valuations. Besides, they also find out that the CEOs who are the founders or their descendants exhibit a positive relation with the accounting profitability measures. Similarly, Maury (2006), by using a sample of 1672 West European nonfinancial companies, reports that the valuation and profitability of family companies is respectively 7% and 16% higher than their non-family counterparts. Andres (2008), by examining 275 German listed companies, documents that family-controlled companies are more profitable than both widely held companies and companies with other types of block-holders. Likewise, Amit et al. (2015) show that the family-controlled companies in China have significantly better performance than non-family companies, regardless of how the performance is measured – ROA, Tobin's q or industry-adjusted q. Moreover, according to Credit Suisse (2015), between 2006 and 2015, the CS Global Family 920 Universe[26] demonstrate an excess return of 4.5% compound annual growth rate versus the MSCI All Countries World Index (ACWI). In the long term perspective, family companies with concentrated ownership structure tend to achieve superior returns and higher profitability than the companies with a fragmented shareholder structure. The OECD (2009) identifies several factors, known as 'the family business edge', that contribute

[26] In order to analyse the family business model and establish whether the risks of concentrated ownership and limited control are justified by superior returns, the Credit Suisse established a database of 920 publicly listed companies globally that have a market capitalisation of at least US$ 1 billion and family-owned shareholding of at least 20% equity, which is known as 'CS Global Family 900 Universe'. The 920 companies are found in 35 countries, with more than 64% from Emerging Asia. (Credit Suisse 2015).

to the ability of family businesses generating value for all shareholders: (i) long-term view in decision-making, (ii) ability and willingness to adopt unconventional strategies, enabling family businesses to respond rapidly to the changing market circumstances and giving them the flexibility to take advantage of opportunities and address emerging risks, (iii) desire to build a business for future generations, translating to a focus on sustainability and reducing the risk that controlling shareholders will run down company assets and destroy value, and (iv) commitment of family management to their company, providing continuity in the way the business is run.

Succinctly, family companies posit certain advantages compared to non-family companies: (i) interest alignment between the shareholders and management (Jensen and Meckling 1976; Credit Suisse 2015; Zellweger 2017), (ii) better board monitoring by controlling shareholders due to economic incentive (Fama and Jensen 1983; Demsetz and Lehn 1985; Jensen and Meckling 1976), (iii) longer investment horizon (Casson 1999; James 1999), (iv) focus on long-term strategic goals and sustainability (Fan et al. 2011; OECD 2009), and (v) better firm performance compared to non-family companies (Anderson and Reeb 2003; Fan et al. 2011; Credit Suisse 2015).

On the other side of coin, family businesses face challenges which they need to address in order to obtain the trust of investors and make the business sustainable in the long run. There are numerous studies suggesting the disadvantages of family companies, which are discussed in section 3.2.2.

3.2.2 Disadvantages of Family Companies

Schulze, Lubatkin, and Dino (2003) put forward that family companies are vulnerable to voting imperfection and entrenchment. The CEOs of family companies generally wield power that is disproportionate to their shares of ownership. The disproportionate power may come from familial sources such as the head of family or hierarchical sources such as the leader of company. Gomez-Mejia, Nuñez-Nickel, and Gutierrez (2001) argue that family companies have higher managerial entrenchment compared to widely held companies because the emotions that the family have in running the business may bias the perception of directors' competence, reducing the monitoring effectiveness. In other words, family status may cause biased judgment about the

appropriateness of executive decisions. McConaughy (2000) finds out that the tenure of the family members of controlling shareholders is almost three times longer than that of the non-family directors (17.6 versus 6.43 years). In the similar vein, Gomez-Mejia, Nuñez-Nickel, and Gutierrez (2001) report that the family CEOs retain their tenure much longer than their performance justifies. They report that family CEOs remain on the job seven years longer than non-family CEOs when the probability of corporate failure is high. Besides, Sarbah, Quaye, and Affum-Osei (2016) note that the suggestions and decisions of non-executive directors to remove non-performing executive directors are usually ignored in Ghananian family companies because those executive directors have close ties with the controlling shareholder such as family and friends. The selection and removal of executive directors in family companies are featured by favouritism and nepotism. In short, due to the family entrenchment, family CEOs or directors remain powerful despite the firm performance does not justify their continued tenure.

According to Backman (2006), apart from aiming for profits and market share, the Asian family companies exists to (i) give family members a job, (ii) hold the family together, (iii) honour the ancestral founders of the company, (iv) have the family's prestige and honour. Consequently, the direction and management of family companies may be determined more by the families' agenda rather than by the principles of corporate governance. In addition, Crespí–Cladera and Gispert (2003) report that the corporate governance of the US family companies is weaker than the non-family companies. They document that the emotional ties among family members affect the adoption of corporate governance best practices. Fernández-Aráoz, Iqbal, and Ritter (2015) relate that among others, the culprits of family businesses failure around the world are the inadequacy of corporate governance and poor talent management. Carney and Child (2013)[27], by comparing the findings of Claessens, Djankov, and Lang (2000), report that the percentages of listed family companies in East Asian countries decrease significantly after the 1998 financial crisis. Many family companies delisted because of the financial crisis. Their findings evident the

[27] Appendix 1.2 compares the findings of Carney and Child (2013) and Claessens, Djankov, and Lang (2000).

vulnerability of family companies to financial crisis due to the lack of sound corporate governance.

Family shareholders tend to appoint unqualified family members to hold the key positions rather than hiring professional directors (Carney 1998; Claessens, Djankov and Lang 2000; Lee 2004; Park, Li and Lien 2015). Pinheiro and Yung (2015) document that family shareholders may be lax in evaluating their family members, promoting them over more skilled non-family directors. The appointment of incompetent family directors could be detrimental to the firm value. Anderson and Reeb (2004) show the evidence of poorer performance in the US family companies when the number of family directors exceeds the independent directors on the board. Jameson, Prevost, and Puthenpurackal (2014) also find out that Indian family companies have a lower Tobin's Q compared to their non-family counterparts. In essence, the involvement of the controlling shareholders and their family on the board of directors appears to be costly for the minority shareholders. Shleifer and Vishny (1997) relate that the reluctance of family shareholders to fire incompetent family directors is likely to lead to higher agency costs. The dominant family philosophy gives the family CEOs and directors the benefit of relieve, where they are more likely to claim that disappointing results are due to the uncontrollable factors or unfortunate circumstances rather than their incompetence (Gomez-Mejia et al. 2011). Further, Gomez-Mejia, Nuñez-Nickel, and Gutierrez (2001) document that family shareholders are more likely to blame and dismiss the non-family directors when firm performance deteriorates. The family entrenchment protects the family directors and deflects the negative firm performance attribution to the non-family directors, despite the family CEOs or directors exercise more direct control over the decisions that lead to poor performance in the first place.

Moreover, kinship reduces the effectiveness of board monitoring because the relationships between family shareholders and family directors are based on the emotions, sentiments and informal linkages (Schulze et al. 2001). Gomez-Mejia, Nuñez-Nickel, and Gutierrez (2001) document that sibling rivalry, generational envy, non-merit-based remuneration and irrational strategic decisions could harm the firm value. Apart from appointing family members, family shareholders also tend to

appoint directors who are their friends and/or have fiduciary relationship with the company such as attorneys and accountants. This further compromises the board autonomy and vigilance (Ford 1988; Nash 1988). DeAngelo and DeAngelo (2000) highlight that family shareholders will ensure that the management serves family interests, either through themselves or through professional managers.

According to Shleifer and Vishny (1997), controlling shareholders who gain nearly full control of the firm have the tendency to generate private benefits that are not shared by the minority shareholders. They may represent their own interests which do not coincide with the interests of other investors, such as stability and capital preservation (Lee 2004). Besides, the controlling shareholders have great potential to entrench themselves at managerial positions and expropriate economic wealth from the company. They could expropriate minority shareholders in many ways such as transfer of assets to controlling shareholders at non-market price, consuming perquisites, special dividends, excessive remuneration, related party transaction and tunneling activities (Johnson et al. 2000; Anderson and Reeb 2003; Faccio, Lang and Young 2001). DeAngelo and DeAngelo (2000) show the evidence of family shareholders extract private benefits through special dividends, excessive incentive scheme, and related party transactions. Basu et al. (2007) find out that higher executive income is associated with greater family influence over the boards in Japanese companies. Taken together, their studies show the evidence of wealth transfer from outside shareholders to family shareholders.

In a nutshell, family companies possess certain possible disadvantages: (i) family CEOs and directors are highly entrenched due to the incumbent relationships with controlling shareholders (Gomez-Mejia, Nuñez-Nickel and Gutierrez 2001; Schulze, Lubatkin and Dino 2003), (ii) the direction and management of company may be determined more by the family's agenda rather than by the principles of corporate governance (Backman 2006), (iii) distortion of effective board monitoring due to reserving board seats such as CEOs, board chairmen, or board directors for unqualified family members rather than hiring competent directors (Demsetz and Lehn 1985; Carney 1998; Claessens, Djankov and Lang 2000; Lee 2004), as well as appointing external directors who are friends or have fiduciary relationship with controlling

family shareholders (Ford 1988; Nash 1988), (iv) expropriation of minority shareholders through several ways such as special dividends, lavish remuneration payout, related party transactions and tunneling activities (Johnson et al. 2000; Faccio, Lang and Young 2001; Lee 2004; Basu et al. 2007).

Family companies face unique challenges. Many failures of family companies indicate that such companies face a multitude of challenges which risk destroying shareholders' value and even the business itself (OECD 2009; Credit Suisse 2015). OECD (2009) documents that corporate governance mechanisms could lead to long-term success and keep peace in the family companies. Fernández-Aráoz, Iqbal, and Ritter (2015) maintain that family businesses around the world fall due to the inadequate corporate governance structure. It is ambiguous which corporate governance mechanisms best suit the family companies, especially in the countries with weak legal protection of minority shareholders, such as Malaysia. This thesis addresses this issue by investigating whether the board of directors and institutional investors could be the effective corporate governance mechanisms of executive remuneration in Malaysian listed family companies.

3.3 Executive Remuneration

Executive remuneration is one of the most debated topics in corporate governance literature. The sky-high executive pay has attracted the public attention and became a hot button issue among the academia, practitioners, policy makers, regulators, media, and institutional investors (Sapp 2008; Barontini and Bozzi 2011; Croci, Gonenc and Ozkan 2012; McCahery, Sautner and Starks 2016). Most of the remuneration studies focussed on CEO pay and conducted in the context of developed countries (Lewellen and Huntsman 1970; Finkelstein and Hambrick 1989; DeAngelo and DeAngelo 1991; Boschen and Smith 1995; Finkelstein and Boyd 1998; Bryan, Hwang and Lilien 2000; Gomez-Mejia, Larraza-Kintana and Makri 2003; Khan, Dharwadkar and Brandes 2005; Ozkan 2007; Stevens and Nina 2008; Jiang, Ahsan and Clive 2009; Fahlenbrach 2009; Croci, Gonenc and Ozkan 2012; Kuo and Yu 2014). The directors' remuneration has started to receive attention in the 2000s (Brick, Palmon and Wald 2006; Abdullah 2006; Basu et al. 2007; Abdul-Wahab and Abdul-Rahman 2009). Despite a wealth of

research on CEO and directors' remuneration, little is known about its determinants in family companies (Gomez-Mejia, Larraza-Kintana and Makri 2003).

The 2008 global financial crisis has fuelled the serious criticism of corporate governance pertinent to remuneration setting (Fahlenbrach and Stulz 2011). The ungoverned excessive remuneration payout in financial institutions is widely perceived as a core contributor to the crisis (Blinder 2009; Hoble 2014). The incentives given to the CEOs and top executives encouraged excessive risk-taking, which eventually led to the financial crisis. Furthermore, several high profile corporate scandals and collapses, which include Enron, WorldCom, HIH Insurance, and Tyco have heightened the importance of corporate governance. The executives and board directors of those companies have been subjected to criminal and civil actions over hidden debt, insider trading, inflated earnings, misuses of funds, and breaches of fiduciary duties (Garg 2007). Ridiculously, the main culprits behind some of the corporate scandals such as Waste Management, Adelphia, and Satyam are the companies' founders and family members. Few questions arise: Do they deserve their remuneration packages? Do they care for the firm sustainability, especially the family executives who often perceived to have the intention of passing the business to their next generations?

The perception that directors are receiving lavish remuneration packages, which often seems to have little reward to the shareholders in terms of firm performance, has fuelled the interest in this area (Mallin 2004). The linkage between the executive remuneration and firm performance has been examined extensively as early as 1960s in the context of the developed countries, particularly the United States (Marris 1963; Williamson 1964). The number of studies on this subject rises significantly during 1980s and 1990s (Lewellen, Loderer and Martin 1987; Finkelstein and Hambrick 1989; Jensen and Murphy 1990; Mangel and Singh 1993; Finkelstein and Boyd 1998). Murphy (1999) documents that this is due to the emerging trend of the separation of ownership and control in corporation and the acceptance of agency theory by the scholars. This is evident in the United States' literature where most of the studies employ agency theory as the tenet to examine pay-performance link (Lewellen and Huntsman 1970; Finkelstein and Hambrick 1989). Nonetheless, those early studies

focus on the CEO pay rather than the remuneration of all directors. Directors' remuneration has started to receive attention only in the 2000s (Brick, Palmon and Wald 2006; Basu et al. 2007; Abdul-Wahab and Abdul-Rahman 2009; Dah and Frye 2017). Prior studies show mixed findings for the pay-performance link. There are numerous studies reporting a positive pay-performance relationship (Jensen and Murphy 1990; Conyon and Peck 1998; Kato and Long 2006; Ozkan 2011; Mendez, Garcia and Rodriguez 2011; Gregg, Jewell and Tonks 2012; Yatim 2013; Lin, Kuo and Wang 2013; Rampling, Eddie and Liu 2013). This is consistent with the notion of classical agency theory which suggests remuneration as a tool to align managerial interests with the shareholders' interests.

Nonetheless, there are also empirical studies showing a negative relationship between CEO remuneration and firm performance (Core, Holthausen and Larcker 1999; Brick, Palmon and Wald 2006; Abdullah 2006). The negative pay-performance relationship is interpreted using the rent extraction and managerial power argument (Bebchuk and Fried 2003; Bebchuk, Fried and Walker 2002). The managerial power approach claims that the excessive CEO remuneration is attributed to the greater power of CEO over the board of directors, which allows the former to set own remuneration packages and extract rents. Furthermore, the weak corporate governance structure and submissive board allow the CEOs to determine their remuneration partly or fully (Bebchuk and Fried 2003). Moreover, Brick, Palmon, and Wald (2006) explain their findings of negative pay-performance link as an evidence of cronyism between the CEO and directors.

Over the years, corporate governance mechanisms have been identified as a complementary factor in influencing the executive remuneration. Core, Holthausen, and Larcker (1999) and Basu et al. (2007), by using the sample of American companies and Japanese companies respectively, report that top executive remuneration is higher in the companies with weaker corporate governance mechanisms. They claim that the companies with weaker governance mechanisms possess greater agency problems, as reflected in the higher remuneration which does not commensurate with the firm performance. Past studies show a positive association between EO remuneration and board size, an attribute of corporate governance mechanisms (Coakley and Iliopoulou

2006; Kashif and Mustafa 2012; Ozkan 2011; Ghosh and Sirmans 2005; Core, Holthausen and Larcker 1999; Jensen and Murphy 1990). They explain the findings in two ways. When the board size increases, the free rider problems among the directors also increase. Larger board size results in coordination and communication problems, and subsequently hinders the board effectiveness in monitoring CEO remuneration. Alternatively, another interpretation is that the larger board size results in better monitoring, which in turn improves the firm performance. CEO remuneration is hence increased as a reward. Kashif and Mustafa (2012) document that the increasing board size indicates more capable and eligible people which are well equipped with resources and skills become part of the company. This could subsequently improve the firm performance, market position, and company goodwill; thus, intensify the CEO pay.

To date, the empirical studies in relation to the influence of corporate governance mechanisms on executive remuneration in the context of non-US companies are limited (Yoshikawa, Rasheed and Brio 2010; Kuo and Yu 2014). In order to contribute to the literature gap as well as theoretically contribute to the Type II agency problem, this study examines the influence of various corporate governance mechanisms on executive remuneration of family companies, which include independent non-executive directors, tenure of independent non-executive directors, CEO-chairman role duality, remuneration committee, and institutional ownership. The literature review of each corporate governance mechanism is discussed in section 3.5.

3.4 Family Companies and Executive Remuneration in Malaysia

This section provides an overview of family companies and executive remuneration in the context of Malaysia. Section 3.4.1 presents the definition of family by Bursa Malaysia Listing Requirements; sections 3.4.2 and 3.4.3 discuss the pervasiveness and significant economic contribution of family companies in Malaysia respectively; and section 3.4.4 reviews the literature of remuneration studies in the Malaysian context.

3.4.1 Definition of Family by Bursa Malaysia Listing Requirements

Under Bursa Malaysia Listing Requirements Chapter 1 – Definitions and Interpretation, Part A Section 1.01, family refers to an individual who is in relation to a person, in which such person falls within any one of the following categories: (a)

spouse, (b) parent, (c) child including an adopted child and step-child, (d) brother or sister, and (e) spouse of the person referred to in (c) and (d). Pursuant to the Bursa Malaysia Listing Requirements Chapter 9 – Continuing Disclosure, Appendix 9C, public listed companies (PLCs) are required to disclose the family relationships between the directors and/or major shareholders.

The family relationships between the directors as well as the family relationships between the directors and major shareholders can be found under the section *Profile of Directors* in the company's annual report published in Bursa Malaysia official website: http://www.bursamalaysia.com/market/listed-companies/list-of-companies/main-market/.

3.4.2 Pervasiveness of Family Companies

The Malaysian public listed companies are characterised by concentrated ownership structure, dominance of controlling shareholders in the management, and limited minority shareholders protection (Claessens, Djankov and Lang 2000; Liew, Alfan and Devi 2014). Claessens, Djankov, and Lang (2000), by using 20% as the equity threshold, report that 67.2% of the Malaysian public listed companies are family-owned in 1996. A decade later, Carney and Child (2013) report a decrease in the percentage of family companies; family companies account for about 44.7% of public listed companies in 2008. Their findings reveal that the percentage of family companies declines modestly after the 1998 financial crisis. They unveil that large number of family companies delisted due to the vulnerability to financial crisis, and some companies change from family-owned to government-owned. Notwithstanding this, family ownership remains the prevalent type of corporate ownership in Malaysia. Specifically, the corporate ownership is dominated by family (44.7%), followed by government (33.5%), widely held (18.1%), and foreign state (3.7%). According to a recent research done by Credit Suisse (2017), Malaysia ranks the seventh globally in terms of the number of family-owned businesses.

Amran and Che-Ahmad (2010), by using the data between 2003 and 2007, report that the mean value of family ownership of the Malaysian listed family companies is

approximately 42.79%, with the maximum value of 84.14%. Likewise, Azizan and Ameer (2012), by using the data from 2005 to 2009, report the mean family ownership of 45.05%.

3.4.3 Significant Economic Contribution by Family Companies

Family companies are the essential sources of wealth creation in Asia including Malaysia (Fan et al. 2011). According to Claessens, Djankov, and Lang (2000), in 1996, the corporate assets held by the largest 15 families in Malaysia contribute to approximate 76.2% of GDP. Besides, they also report that the top 5 families controlled 17.3% of total market capitalisation; the top 10 families controlled 24.8% of total market capitalisation; and the top 15 families controlled 28.3% of total market capitalisation. Their findings suggest that a relatively small number of families effectively control Malaysian economies. In recent year, a research done by the Credit Suisse reports that Malaysian listed family companies contribute approximately 67.0% of nominal GDP in 2010 (Fan et al. 2011).

3.4.4 Executive Remuneration

In order to govern the executive remuneration, the Malaysian Code on Corporate Governance, Part 1 Section B, stipulates the following recommendations:

I. The Level and Make-up of Remuneration

Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance, in the case of executive directors.

II. Procedure

Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.

III. Disclosure

The company's annual report should contain details of the remuneration of each director.

(High Level Finance Committee on Corporate Governance 2000; Securities Commission Malaysia 2007, 2012)

Despite the existence of corporate governance principles, the actual and true directors' remuneration in Malaysia is generally dubious (Lim and Yen 2011). There is only a handful of listed companies disclosing the exact amount of remuneration received by each director and the executive share options (Lim and Yen 2011; Chu and Song 2012; Bushon and Hassan 2015). According to the one of the MSWG reports prepared by Bushon and Hassan (2015), director remuneration has been receiving increased scrutiny by the shareholders. Specifically, the issue concerns expropriation of profits at the expense of minority shareholders through excessive remuneration. In addition, several empirical studies suggest the possible expropriation of shareholders through excessive remuneration. For instance, Abdullah (2006) reveals that the directors in the loss making companies receive excessive remuneration. Besides, Barrock (2002, cited in Abdullah 2006), show an evidence of fund misappropriation; a Malaysian company did not pay dividends to its shareholders in the past few years, but its directors receive lavish remuneration. Furthermore, Malaysian Business's survey on the highest paid directors reports that the total director payout in top 20 companies increased by 22% from 2009 to 2010 (Hamsawi 2011). The survey also unveils that more than half of the highest paid directors in Malaysia are the CEOs or board chairmen of family companies, such as Genting, Berjaya, and YTL, to name a few.

In 2013, the annual average income per capita is RM 33,010 (Economic Planning Unit 2013), whilst the average remuneration per executive director is RM 1,164,727 (Minority Shareholder Watchdog Group 2014b). The huge disparity demonstrates the excessive remuneration paid to the executive director. In addition, about 62.1% of companies increase their director remuneration payout from 2012 to 2013 despite Malaysian economic growth drops from 5.6% in 2012 to 4.7% in 2013 (The Malaysia Insider 2014). Malaysian companies continue to pay high remuneration to their

directors despite making losses (Focus Malaysia 2014; Immanuel 2015). The Minority Shareholder Watchdog Group (2013a) finds out that the remuneration packages of a director skyrockets from RM8.4 million in 2011 to RM33.4 million in 2012, representing a humongous increase of 297.6% in one year. This exaggerated executive remuneration constitutes about 14% of the firm's net profit of RM232.7 million for the year. In addition, the Minority Shareholder Watchdog Group (2012, 2013b, 2014b, 2015) reports that the average remuneration per executive director has been on a rise in recent years, except a decline from 2012 to 2013. Table 3.1 shows the average remuneration per executive director from 2012 to 2015.

Table 3.1: Average remuneration per executive director from 2012 to 2015

Year	Average (RM)
2012	1,253,306
2013	1,164,727
2014	1,347,649
2015	1,539,000

Source: Minority Shareholder Watchdog Group (2012, 2013b, 2014b, 2015)

Furthermore, Table 3.2 shows the top 3 highest paid directors in 2003, 2009, and 2013 (Arkib 2004; Hamsawi 2011; News Straight Times 2014).

Table 3.2: Top 3 highest paid directors in 2003, 2009, and 2013

Highest paid director	2003	2009	2013
1st	**Genting Bhd** Chairman/CEO, Tan Sri Lim Kok Thay, receives around RM40 million	**Genting Bhd** Chairman/CEO, Tan Sri Lim Kok Thay, receives around RM107 million	**Genting Bhd** Chairman/CEO, Tan Sri Lim Kok Thay, receives around RM136 million
2nd	**Resorts World** Chairman/CEO, Tan Sri Lim Koy Thay, receives around RM16 million	**IOI Corporation** Chairman, Tan Sri Lee Shin Cheng, receives around RM53 million	**Genting Malaysia** Chairman/CEO, Tan Sri Lim Koy Thay, receives around RM57 million
3rd	**Berjaya Sports Toto** CEO, Tan Sri Vincent Tan, receives around RM8 million	**Genting Malaysia** Chairman/CEO, Tan Sri Lim Kok Thay, receives around RM42 million.	**IOI Corporation** Chairman, Tan Sri Lee Shin Cheng, receives around RM52 million

Source: Arkib (2004), Hamsawi (2011), and News Straight Times (2014)

The most lavish remuneration is paid to the chairman cum CEO of Genting Berhad, who is also the major shareholder of the company. His remuneration escalates from around RM40 million in 2003 to RM107 million in 2009, from 8-digit figure to 9-digit figure. In 2013, the remuneration of the top 3 highest paid directors are respectively about 4000 times, 1700 times, and 1575 times the national income per capita of RM33,010. Moreover, it is noted that a majority of the highest paid directors hold CEO-chairman role duality. This indicates the non-compliance of corporate governance practice recommended by the MCCG, that is, the positions of board chairman and CEO should be held by different individuals. The CEO may design own remuneration package at his discretion as there is no independent chairman to oversee his decisions and actions. Such role duality structure may erode the board autonomy in monitoring executive remuneration. In essence, the extravagant remuneration triggers the curiosity whether the wealth has been expropriated from the shareholders.

Based on the abovementioned reports and surveys, it is noted that the executive remuneration of Malaysian companies is increasing over time. However, there are only a handful of empirical studies that examine its determinants. Prior studies include the remuneration of both executive and non-executive directors in their measurement (Dogan and Smyth 2002; Abdullah 2006; Abdul-Wahab and Abdul-Rahman 2009; Jaafar, James and Abdul-Wahab 2012; Yatim 2013). Besides, those studies employ agency theory, particularly Type I agency conflict, to investigate the directors' remuneration prior to the issuance of the revised MCCG 2012. For instance, Dogan and Smyth (2002), by using the study periods from 1989 to 2000, report that the board remuneration is positively associated with sales turnover, but negatively associated with ownership concentration. Their sample sizes vary over the study periods; they only include the companies disclosing the required data. The variation of sample size over the study periods casts doubt pertaining to the generalisation of their results.

Abdullah (2006), by using a sample of 86 distressed companies and matched 86 non-distressed companies, reveals that directors' remuneration is not associated with the firm performance measured by ROA. In addition, he reports that the shareholdings of executive directors and external block-holders do not have significant influence on

directors' remuneration. His study is based on single-year data – 2001. Longitudinal study should be conducted to validate the results.

Abdul-Wahab and Abdul-Rahman (2009), by using the panel analysis of 434 companies from 1993 to 2003, report a negative association between the institutional ownership and directors' remuneration, suggesting the monitoring effectiveness of institutional investors. Further, they note that the negative association becomes less significant in politically connected companies. They suggest that political connections mitigate the institutional monitoring in a relationship-based economy.

Lim and Yen (2011), by examining a sample of 191 Malaysian PLCs over the period from 2002 to 2007, report a non-linear relationship between the share ownership of executive directors and their salary levels. The model exhibits a negative, positive, and negative relationship, which corresponds to the occurrence of convergence-of-interests (ownership level between 0% and 22%), managerial entrenchment (ownership level between 23% and 76%), and convergence-of-interests (ownership level above 76%). Their findings indicate that controlling shareholders of Malaysian PLCs expropriate other shareholders by setting their own salary at the ownership levels of between 23% and 76%. This suggests the existence of Type II agency conflicts. Nevertheless, at a lower level of executive ownership, convergence-of-interests effect is found to take place. Besides, they report that the external block-holders do not possess any significant influence on the executive remuneration.

Jaafar, James, and Abdul-Wahab (2012), by using a sample of 537 PLCs from 2007 to 2009, examine the association between remuneration committee and directors' remuneration. Their study is the only study in the Malaysian context that takes into the consideration of family and non-family companies. The overall results report that the size of remuneration committee has a significant positive influence on the directors' remuneration, indicating that remuneration committee performs an effective monitoring role. Nonetheless, they find out that the positive influence becomes less significant in family companies, suggesting that controlling family combines the power and control to mitigate the effective monitoring of remuneration committee; this provides them an opportunity to expropriate via directors' remuneration.

Yatim (2013), in her working paper, reports that directors' remuneration is positively associated with the firm performance measured by ROA, CEO tenure, board size, and the existence of remuneration committee; and negatively associated with board independence. Similar to Abdullah (2006), her study is based on single-year data – 2008.

To a large extent, previous studies include overall companies in their sample sets (Dogan and Smyth 2002; Abdullah 2006; Abdul-Wahab and Abdul-Rahman 2009; Lim and Yen 2011; Yatim 2013). Little attention is focused on the family companies despite its pervasiveness, structural uniqueness, and significant economic contribution (Carney and Child 2013; Fan et al. 2011; Ibrahim, Abdul-Samad and Amir 2008). Since most of the companies in Malaysia are family-based, there is a tendency for biasness and crony capitalism to exist in the determination of remuneration packages (Lim and Yen 2011). The measurement of directors' remuneration by previous studies include both executive and non-executive remuneration packages (Dogan and Smyth 2002; Abdullah 2006; Abdul-Wahab and Abdul-Rahman 2009; Yatim 2013), only Lim and Yen (2011) specifically examine the executive remuneration. According to PWC (2016c), executive remuneration is one of the concerns of the investors nowadays. Hence, this study specifically investigates the executive remuneration. The extent of executive remuneration and its determinants in family companies have to be empirically studied as Malaysia's economic growth depends, to an extent, on family companies[28]. A strong corporate governance landscape is essential for the inflows of foreign capital funds. The inadequate corporate governance system and the fund misappropriation via executive remuneration in family companies would deter the investment preferences of foreign investors and other investors; this could indirectly hamper Malaysia's economic growth.

To date, there is limited empirical study examining the executive remuneration after the introduction of the revised MCCG 2012. Among others, the revised MCCG 2012 emphasises the governance of directors' remuneration. This study examines the period from 2010 to 2014; two years pre- and post – 2012 would enable the assessment of the

[28] In Malaysia, family companies account for about 44.70% of listed companies (Carney and Child 2013; Ibrahim, Abdul-Samad and Amir 2008) and contribute around 67.00% of nominal GDP (Fan et al. 2011).

influence of the revised MCCG 2012 on executive remuneration. As such, this study analyses the following overarching research proposition:

Research proposition: The executive remuneration of listed family companies in Malaysia is decreasing from 2010 to 2014.

3.5. Hypotheses Development

As discussed in section 3.1, the board of directors and institutional investors are suggested by the agency theory, policy makers, and prior literature to mitigate the agency problem between the shareholders and management (Type I agency conflicts) in widely held companies. It is ambiguous whether these corporate governance mechanisms could ameliorate the agency problem between the controlling shareholders and minority shareholders (Type II agency conflict) in family companies with concentrated ownership structure. In order to contribute theoretically and empirically, this study examines the influence of board of directors and institutional investors on executive remuneration in family companies. Specifically, this study sheds light on the association between executive remuneration and (i) family participation on board; (ii) independent non-executive directors on board; (iii) tenure of independent non-executive directors; (iv) CEO-chairman role duality; (v) remuneration committee; and (vi) institutional ownership – domestic and foreign, in the context of Malaysian listed family companies. The following sections (3.5.1 to 3.5.6) provide the literature review for each independent variable.

3.5.1 Family Participation on Board

Barnett (1960) puts forward that controlling family uses a narrow kinship network in making recruiting decisions. Family shareholders tend to keep the board seats for their family members as to ensure the company serves their interests (Demsetz and Lehn 1985; LaPorta, Lopez-de-Silanes and Shleifer 1999; Mackie 2001; Lins 2003; Moores and Craig 2008). LaPorta, Lopez-de-Silanes, and Shleifer (1999), in their authoritative study of corporate ownership around the world, report that among the companies with concentrated ownership structure (using 10% of equity as the threshold), more than 69% have the controlling shareholders and their family members to hold the positions of CEO, chairman, honorary chairman, or vice-chairman. Anderson and Reeb (2004)

note that the controlling family of the US family companies often seek to reduce the proportion of independent directors on board and tend to appoint family members as the top executives. They report that the boards of family companies comprise significantly fewer independent directors than the non-family companies (44% versus 61%). Similarly, in East Asian countries, which include Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand, Claessens, Djankov, and Lang (2000) report that the separation of ownership and control is rare, and the top executives of about 60% of companies that are not widely held have family relationships with the controlling shareholders.

Family directors are benefited from incumbent family ties with controlling shareholders and enjoy high employment security in family companies (Allen and Panian 1982; Gomez-Mejia, Nuñez-Nickel and Gutierrez 2001; Schulze et al. 2001; Gomez-Mejia, Larraza-Kintana and Makri 2003). Based on the agency theory's logic, the risk-averse agents will trade higher job security for lower remuneration if they are related to the principals. This idea is buttressed by the fact that the family directors are more likely to be emotionally attached to the company than the professional counterpart, thus the agency contract should be less calculative and utilitarian for the former than the latter (Gomez-Mejia, Nuñez-Nickel and Gutierrez 2001; James 1999). Gomez-Mejia, Larraza-Kintana, and Makri (2003), by using 253 family companies from COMPUSTAT database over the periods from 1995 to 1998, note that family CEOs receive lower total remuneration compared to non-family CEOs in family companies. They explain that family CEOs do not need remuneration that follows external market trends because their family ties make them less likely to exit the companies to pursue other career opportunities. Family CEOs are less disposed to leaving and are willing to receive less remuneration in exchange for the additional job security. Due to the family ties, family CEOs are unlikely to leave for higher remuneration elsewhere, which makes it unnecessary to remunerate family CEOs market rates for their service. In other words, the family handcuff lessens the need to reward family executives with remuneration packages that are comparable to those of professional executives.

In addition, Sapp (2008) finds out that an increasing number of family directors on board is associated with a decrease in CEO remuneration in Canadian public listed companies, suggesting that the presence of controlling shareholders and their family on board is associated with lower level of remuneration. Besides, Combs et al. (2010), by using S&P 500 companies, report that CEOs in the companies with multiple family directors on board are paid less than the CEOs in non-family companies. Taken together, their findings suggest that family representation of controlling shareholders on board provides an important source of CEO remuneration monitoring.

On the other hand, a contradicting view about family companies is that the family directors are capable of redistributing wealth for their own advantages (Shleifer and Vishny 1997; Barontini and Bozzi 2011). Generally, the CEO of family company wields power that is disproportionate to his or her stake of ownership; this disproportionate power stems from familial sources and hierarchical sources such as the head of family (Schulze, Lubatkin and Dino 2003). Moreover, altruism and kinship can create a sense of entitlement among family directors by encouraging the CEO who is usually a parent or head of household of the controlling family to use the company's resources to provide family members with employment, perquisites and privileges that they would not otherwise receive (Schulze, Lubatkin and Dino 2003). Altruism can also bias CEOs' perception of their employed children, which hampers their ability to monitor and discipline them.

Holderness and Sheehan (1988) report that the owner-managers in NYSE or AMEX listed companies receive marginally higher salaries than other officers. Barontini and Bozzi (2011) report that Italian family companies pay a higher remuneration to their CEOs compared to non-family companies, and the family CEOs are paid more than the professional CEOs in family companies. Besides, they find out that high board remuneration is associated with a higher proportion of family directors on the board and the excess remuneration is never positively related to future firm performance. They interpret these findings as an evidence of rent extraction, arguing that family CEOs are over-compensated at the expense of minority shareholders. Chen, Hsu, and Chen (2014) maintain that family CEOs tend to extract private benefits of control, because they are allowed to spend other people's money without committing too much

equity. In short, past studies show the evidence the family entrenchment via remuneration payout; the direction of controlling family deviates from maximising profit to wealth expropriation. Schulze et al. (2001) point out that the owner-managers do not necessarily minimise the agency cost, in some cases, can exacerbate it. Agency problems may be more severe in family companies due to self-control and other agency threats engendered by altruism. They argue that owner-managers reduce the effectiveness of external governance mechanisms.

Husnin, Nawawi, and Salin (2016) document that family-controlled companies tend to elect their own family members as the directors and management team, inflicting weak governance. Claessens, Djankov, and Lang (2000) document that in 1996, 94.6% of Malaysian listed family companies appoint the family members of controlling shareholders to hold the top management positions. After a decade, Carney and Child (2013), by using the data of 2008, report a decrease of 23.7%; 70.9% of Malaysian listed family companies have the family members of controlling shareholders to involve in the management. None of the past studies examines the influence of family directors on board in Malaysian listed family companies, particularly on executive remuneration.

Around the world, the controlling shareholders and their family members generally hold the positions of CEO, chairman, and board director in family companies (LaPorta, Lopez-de-Silanes and Shleifer 1999; Claessens, Djankov and Lang 2000; Faccio and Lang 2002; Lins 2003; Maury and Pajuste 2005; Bhaumik and Gregoriou 2010). Malaysia is of no exception. PWC (2016b) report that 69% of Malaysian listed family companies have next generation family members working in the business. Despite the significant participation of family members on board, the empirical study on the association between family directors on board and executive remuneration is limited. Of the few studies, Barontini and Bozzi (2011), by examining the Italian listed companies, report that there is a positive association between the proportion of family members on board and total board remuneration, which include the remuneration packages of both executive and non-executive directors. Gomez-Mejia, Larraza-Kintana, and Makri (2003) use the ratio of family members on board as a control variable to investigate CEO remuneration of family companies listed in

COMPUSTAT; no significant association is reported. In view of the limited empirical evidence on the association between family participation on board and executive remuneration, particularly in the context of developing countries, this study fills the literature gap. Based on prior literature, there are two contradicting views with regard to the executive remuneration in family companies. On the one hand, the family directors are willing to receive lower remuneration due to the loyalty family ties and job stability (Allen and Panian 1982; Gomez-Mejia, Nuñez-Nickel and Gutierrez 2001; Schulze et al. 2001; Gomez-Mejia, Larraza-Kintana and Makri 2003). On the other hand, family directors have the propensity to expropriate wealth via remuneration arrangements at the expense of minority shareholders (LaPorta, Lopez-de-Silanes and Shleifer 1999; DeAngelo and DeAngelo 2000; Basu et al. 2007; Barontini and Bozzi 2011). This study adopts the latter notion as the Type II agency conflict in family companies can take the form of excessive salaries or perquisites for family members. As such, the following hypotheses are proposed:

H_1: Family directors on board have a positive association with the executive remuneration.

H_2: Family CEO has a positive association with the executive remuneration.

3.5.2 Board Independence

Board independence is an essential aspect of corporate governance that ensures the effectiveness of board (Weisbach 1988; Coles, Daniel and Naveen 2008; Zattoni and Cuomo 2010; Bouras and Gallali 2016). However, the board effectiveness has become a global concern due to several corporate scandals, corporate collapse, fraud cases and questionable board decisions (Zattoni and Cuomo 2010; Sarbah, Quaye and Affum-Osei 2016). Generally, there are three proxies used by previous studies to measure the board independence: (i) the proportion of non-executive directors on board (Conyon and Peck 1998; Ghosh 2006; Yatim 2013; Haniffa and Hudaib 2006); (ii) the proportion of independent directors on board ; and (iii) the proportion of outside or external directors on board (Fama and Jensen 1983; Brickley and James 1987; Weisbach 1988; Byrd and Hickman 1992; Core, Holthausen and Larcker 1999; Mishra, Randøy and Jenssen 2001; Coles, Daniel and Naveen 2008; Duchin, Matsusaka and

Ozbas 2010). Thus, the following discussion on board independence consists of non-executive directors, independent directors, and outside directors measured by prior studies.

Non-executive directors are recommended by the agency theory (Fama and Jensen 1983) as well as Cadbury Committee Report 1992, Greenbury Committee Report 1995, and Hampel Committee Report 1998 as a mechanism to reduce the Type I agency problem between the shareholders and management. According to Hishammuddin (2004), the term 'non-executive director' has traditionally been used to describe a director who is not in the full-time employment of company. However, a director who is not in the company's full-time employment may still be intertwined with its operations; for instance, the director may be interested in major contracts of the company, or may have a major shareholding in the company, or may be a former employee (Hishammuddin 2004). According to Hart (1995), the non-executive directors may represent the companies that do business with this company, such as major purchasers, suppliers, company's lawyers, and consultants, etc. As such, their independence is compromised. The non-executive directors may not be truly independent in nature due to the business or fiduciary relationship.

The term 'independent director' refers to a director who is not in the full-time employment of the company, has no affiliation with the company other than being on the board, and has no family, business or professional ties with the directors or top managers of the company (Byrd and Hickman 1992; Beasley 1996; Hishammuddin 2004; Zattoni and Cuomo 2010). According to Hishammuddin (2004), an independent director is detached from the company's daily operations, hence, is expected to bring a variety of strengths to the board, such as: (i) a wider general experience of strategy formulation; (ii) have independent views that are not influenced by the consideration of career, status or personal empire; (iii) have the professionalism to ensure that the board uses adequate systems to safeguard the interests of company even where these may conflict with the personal interests of the executive directors, for instance, setting the executive remuneration.

Jensen (1993) postulates that the board of directors represents shareholders and serves as their first line of defence against a self-serving management. Board of directors is the primary internal corporate governance mechanism of a company (Zattoni and Cuomo 2010; Méndez, García and Pathan 2017). According to Fama and Jensen (1983), outside directors are competing in the directors' labour market. Thus, they have the incentives to establish and maintain the reputation of being professional experts who have the managerial competence and can effectively monitor the management as well as look after the shareholders' best interests. Agency scholars proclaim that outside directors are usually expert monitors; poor firm performance may undermine their reputation and future career (Fama and Jensen 1983). Earlier, Kaplan and Reishus (1990) find out that the directors in poorly performing companies (dividend reducing companies) have fewer opportunities to serve as outside directors for other companies. Gilson (1990) notes that the directors who leave distressed companies hold about one-third fewer directorships three years after their departures than the number of directorships they held at the time of resignation. These empirical evidences highlight the existence of an external market that punishes directors for poor performance.

Bhagat and Black (2002) note that the low-profitability American companies increase their proportion of independent directors on board, however, there is no evidence that greater board independence leads to better firm performance. In the Singaporean context, Nguyen, Locke, and Reddy (2014) also find no association between non-executive directors and firm performance, indicating that non-executive directors play tokenism role and add no value to the companies. These empirical findings challenge the conventional tenet that non-executive or independent directors add beneficial value to the companies. On the other hand, Brickley and James (1987) note that the presence of outside directors reduce the managerial consumption of perquisites. Moreover, Byrd and Hickman (1992) find out that independent outside directors monitor firm decisions on behalf of shareholders during the acquisition process.

Pertaining to the association between board independence and executive remuneration, the majority of related studies are based on the Type I agency conflict in widely held companies. The findings are inconclusive. Crystal (1991) put forward that the board

of directors is ineffective in setting appropriate level of remuneration because outside directors are generally hired by the CEO and can be removed by the CEO. The outside directors owe their positions to management who elected them to the board. Thus, they have the tendency to show their gratefulness and loyalty to the management in order to be re-elected and continue to collect fee (Hart 1995; Fahlenbrach 2009). Besides, the non-executive directors may hold more important or executive positions on other corporate boards and probably have little time to monitor the company's affairs (Hart 1995). Their arguments are supported by empirical findings. Core, Holthausen, and Larcker (1999) report that the CEO remuneration in the US companies are higher when the outside directors serve more than three other boards and are appointed by the CEO. They explain that the corporate governance is weak due to the lack of independence of outside director, thus the CEO is able to extract additional remuneration. They find no evidence that independent outside directors can create an effective board. Ozkan (2007), by examining 414 large UK companies, report that higher proportion of non-executive directors is positively associated with higher CEO remuneration, suggesting that non-executive directors are not an effective monitoring mechanism.

On the other hand, Ghosh (2006) shows that when the proportion of non-executive directors on board in Indian companies increases, the board remuneration decreases significantly for small companies and group-affiliated companies. However, his study is not confined to family companies. Lim and Yen (2011), by examining the Malaysian companies with a single largest shareholder who own at least 10% of equity, report that the independent non-executive directors are able to rein the bonus and cash remuneration paid to the executive directors. However, they do not take into consideration the family directors on board. Besides, their criterion is based on single largest shareholder but not a family as a whole. Abdullah (2006) finds that independent directors have a negative influence on the directors' remuneration in Malaysian listed companies. Similarly, Yatim (2013) reports a negative association between the proportion of non-executive directors on the board and directors' remuneration in Malaysian listed companies. The empirical studies by Abdullah (2006) and Yatim (2013) are based on single-year data, 2001 and 2008 respectively. Taken together, the negative association reported by prior studies suggests that greater board independence could provide an effective governing function on the remuneration arrangement.

Nonetheless, none of the studies specifically examine the governing role of independent directors in family companies, particularly concerning executive remuneration. While extant studies focus on the role of independent non-executive directors in mitigating principal-agent problem (Type I agency conflict), this study explores the potential of independent non-executive directors in ameliorating the principal-principal problem (Type II agency conflict) in family companies, meanwhile protecting the minority shareholders from the expropriation by family controlling shareholders via executive remuneration.

In order to limit the family's discretion over firm resources and protect the interests of minority shareholders, prior literature emphasises the need of oversight by an independent board with the formal authority to scrutinise and challenge the family's decisions and behaviours (Anderson and Reeb 2004; Chen and Hsu 2009; Bammens, Voordeckers and Gils 2010). Mishra, Randøy, and Jenssen (2001) find that outside directors do not improve the firm value of Norwegian family companies, arguing that outside directors do not improve the corporate governance and the board is perceived less as a governance mechanism in family companies. Anderson and Reeb (2004) note that the US family companies often seek to reduce the proportion of independent directors on board. Moreover, Croci, Gonenc, and Ozkan (2012) report that family companies only allocate about 20.5% of the board seats to the independent non-executive directors in the context of Continental Europe. Leung, Richardson, and Jaggi (2014) also report that the proportion of independent directors on board of Hong Kong family companies is lower than their non-family counterparts (38.8% versus 40.3%). Likewise in Malaysia, Ibrahim, Abdul-Samad, and Amir (2008) note that the proportion of independent non-executive directors on board of Malaysian listed family companies is lower compared to non-family companies (36.1% versus 40.3%). Gomez-Mejia et al. (2011) relate that hiring outside directors to involve in the decision making will erode family's socio-emotional wealth by increasing information asymmetries, raising the possibility of conflicting goals, and diminishing the authority. In family companies, family directors are well positioned to have a strong control over material information. The monitoring role of independent directors may be slashed if they are unable to obtain timely information (Gomez-Mejia et al. 2011; Jiang and Peng 2011). Gomez-Mejia et al. (2011) document that family shareholders generally view

outside directors as a source of expertise, not monitoring. On this premise, it is curious whether the independent non-executive directors in family companies are an effective governing mechanism and good representation of minority shareholders.

In the context of Malaysia, Bursa Malaysia Listing Requirements mandate that one-third of the board to be independent directors. In addition, the MCCG recommends that the board must comprise a majority of independent directors when the board chairman is not an independent director as to ensure the balance of power and authority on the board (Securities Commission Malaysia 2012). This recommendation is typically crucial for family companies as their board chairman are generally family directors (LaPorta, Lopez-de-Silanes and Shleifer 1999). The minority shareholders must have power to counter family control; a potential power base for minority shareholders to oppose family opportunism is the relative influence of independent directors in the company. The ability of independent directors to monitor family activities is one of the salient issues in assessing the vulnerability of minority shareholders to family opportunism (Anderson and Reeb 2004). They reveal that controlling family shareholders often seek to minimise the proportion of independent non-executive directors on board, while outside shareholders seek more independent non-executive director representation. Their findings pinpoint the importance of independent non-executive directors in lessening the conflicts between shareholder groups, and imply that the interests of minority shareholders are best protected when the independent non-executive directors have power relative to family shareholders. This study proposes that independent non-executive directors are potentially one of the mechanisms that minority shareholders could rely on in protecting their interests against family opportunism via executive remuneration. Independent non-executive directors should perform objective scrutiny on behalf of minority shareholders, maintain integrity, and possess strong independent principles in governing executive remuneration. Hence, the following hypothesis is suggested:

H_3: Board independence has a negative association with executive remuneration.

3.5.3 Tenure of Independent Non-Executive Directors

Tenure is an observable characteristic that reveals additional information about an independent director's capabilities and expertise. The independent director with long tenure accumulates greater company-specific knowledge and experience. This could enhance the commitment and monitoring effectiveness, thus better serve the interest of shareholders (Dhaliwal, Naiker and Navissi 2010; Liu and Sun 2010; Li et al. 2013; Chan, Liu and Sun 2013; Bonini et al. 2017). Dhaliwal, Naiker, and Navissi (2010) postulate that effective monitoring is an internally acquired skill, the directors with longer tenure are likely to provide more effective governance relative to those with shorter tenure. An efficient market for director talent suggests that the most capable directors should accumulate longer tenure (Li et al. 2013). Vance (1983) posit that forced retirement of long-tenured directors will lead to a waste of valuable experience.

Hermalin and Weisbach (1991) document that the acquisition of firm-specific knowledge over time by outside directors improves the firm performance of New York companies. Beasley (1996), by using 150 companies listed in SEC over the period from 1980 to 1991, reports that the likelihood of fraud decreases as the average tenure of outside directors' increases. Yang and Krishnan (2005), by using 896 firm-year observations over the period from 1996 to 2000 in the US context, report a negative association between the average tenure of independent directors on audit committee and earnings management. Similarly, Liu and Sun (2010), by examining 7,700 firm-year observations over the period from 1998 to 2005 in the US context, show that the proportion of long-tenured outside directors on audit committee is negatively associated with earnings management. Dhaliwal, Naiker, and Navissi (2010), by studying 770 sample companies from COMPUSTAT and Board Analyst databases over the period from 2004 to 2006, report that the average tenure of audit committee members is positively associated with accruals quality, suggesting that the firm specific knowledge gained by long-tenured directors enhances their ability to monitor the financial reporting process. Taken together, these past findings corroborate the notion that long-tenured independent directors have greater expertise to effectively monitor and add value to the companies.

On the other hand, Vafeas (2003), by examining 483 companies listed on the 1994 Forbes list, reports that the companies with the presence of long-tenured outside directors (serve twenty or more years) in the remuneration committee pay CEOs significantly higher salaries. The findings suggest that long-tenured outside directors compromise shareholders' interests by inflating CEO salaries. The presence of long-tenured outside directors appears to be a sign of CEO entrenchment. Thus, he proposes management friendliness hypothesis, suggesting that long-tenured outside directors are more likely to befriend and less likely to monitor the management. Vafeas (2003) proclaims that the length of outside directors' tenure serves as an observable proxy for what is truly at issue but remains unobserved. His study highlights the independent directors' tenure as an interesting and relevant public policy issue concerning effective board.

Li et al. (2013), by studying the associations between family companies, director tenure, and firm value of S&P 1500 companies, note that the average tenure of independent directors in family companies is significantly higher than the non-family companies (7.7 years versus 6.8 years). They find a significant positive association between the tenure of independent directors and firm value in non-family companies, but insignificant association in family companies. Li et al. (2013) put forward that long-tenured independent directors in family companies are likely to be friends of the controlling family and their presence does not maximise general shareholders' wealth. Family companies, motivated by the incentive to consume private benefits, will choose to keep friendly independent directors and let these directors to accumulate longer tenure.

Huang (2013) note that the average tenure of outside directors possesses an inverted U-shaped relationship with the firm value measured by Tobin's Q in the US companies, suggesting that directors' on-the-job learning improves the firm value up to some threshold, at which point entrenchment dominates and firm value suffers. He finds out that firm value reaches the maximum at the average tenure of nine years, after controlling the corporate governance characteristics, CEO characteristics, and firm characteristics. Beyond the average tenure of nine years, the oversight by outside directors starts to decline and the management engages in value-destroying activities.

Bonini et al. (2017) report that the average tenure of independent directors is not associated with firm value of the US companies, and in some cases, it appears to have a negative impact on the firm performance and firm stability. Taken together, their findings heighten the need for setting a tenure limit for the independent directors as long tenure may be detrimental to the shareholders' interests.

Prior studies show inconclusive findings with regard to the monitoring effectiveness of long-tenured independent directors. On the positive front, long-tenured directors accumulate greater firm specific knowledge and expertise, which can enhance the monitoring effectiveness (Hermalin and Weisbach 1991; Beasley 1996; Liu and Sun 2010; Dhaliwal, Naiker and Navissi 2010; Li et al. 2013). On the negative front, long tenure undermines the governing effectiveness of independent directors as they may develop friendly relationship with the management (Vafeas 2003; Huang 2013; Bonini et al. 2017). All of these past studies are conducted in the context of developed countries. This study fills the literature gap by examining the influence of average tenure of independent directors on executive remuneration in the context of a developing country, Malaysia.

A number of foreign jurisdictions have introduced a corporate governance principle related to independent director's tenure. For instance, the UK Corporate Governance Code requires the company to explain in its annual report the reason(s) for keeping the independent directors that serve more than nine years (Financial Reporting Council 2014). Hong Kong Exchanges and Clearing Limited stipulates that if an independent non-executive director serves beyond nine years, his/her further appointment is subject to a separate resolution to be approved by shareholders (Hong Kong Exchanges and Clearing Limited 2014). Similarly, in Malaysia, the revised MCCG 2012 introduces a new corporate governance practice, which is, the tenure of an independent director should not exceed a cumulative term of nine year. The board must justify and seek shareholders' approval for retaining an independent director who has served in the same capacity for more than nine years. (Securities Commission Malaysia 2012). However, the MCCG is principle-based, not rule-based. The companies can choose to retain independent directors that exceed nine-year tenure. Bursa Malaysia, in its review of PLC's annual reports for the years 2012 and 2013, note that 55% of PLCs retain

independent non-executive directors that serve more than nine years (Mahalingam 2015). This finding is consistent with the finding of Minority Shareholder Watchdog Group (2014b) that 459 out of 873 PLCs keep the independent non-executive directors who has served more than nine years in the same capacity.

Except the empirical studies by Hermalin and Weisbach (1991) and Beasley (1996), the tenure of independent directors only starts to receive the attention of the researchers, regulators, and policy makers in the 2000s (Vafeas 2003; Yang and Krishnan 2005; Liu and Sun 2010; Li et al. 2013; Huang 2013; Bonini et al. 2017; Securities Commission Malaysia 2012; Financial Reporting Council 2014; Hong Kong Exchanges and Clearing Limited 2014). The empirical evidence on the governing effectiveness of long-tenured independent directors is scarce, thus offering an avenue to explore. Of the numerous studies that examine the executive remuneration, only a few has given serious thought to the influence of the tenure of independent non-executive directors. Vafeas (2003) examines its influence on CEO remuneration by using the companies listed on the 1994 Forbes list. Till date, there is limited empirical study pertaining to the influence of the tenure of independent non-executive directors on executive remuneration. This study proposes that long-tenured independent non-executive directors not only inflate the CEO remuneration, but also executive directors' remuneration. This is because the independent non-executive directors would develop friendly relationship with all board directors, not just the CEO. Over time, they become less effective to monitor the remuneration packages of their 'friends'.

Moreover, the empirical studies that examine the influence of the tenure of independent directors in family companies are limited. Li et al. (2013) report that the influence of long-tenured independent directors on the firm value in the US context appears to be positive in non-family companies but negative in family companies. Family companies tend to keep friendly independent directors and let them to accumulate longer tenure; this enables the family to consume private benefits. In light of their findings, this study casts doubt pertaining to the effectiveness of the long-tenured independent directors in governing executive remuneration in family companies. Sarbah, Quaye, and Affum-Osei (2016) document that family companies tend to retain loyal employees. In this instance, it is ambiguous whether the long-

tenured independent directors in family companies are kept for the allegiance to the family or their ability to monitor. This study adopts the tenet that long tenure compromises the independent function of independent non-executive directors. As such, the following hypothesis is proposed:

H_4: Tenure of independent non-executive directors has a positive association with executive remuneration.

3.5.4 CEO-Chairman Role Duality

CEO-chairman role duality structure exists when a company's CEO also serves as the board chairman (Bliss, Gul and Majid 2011). Prior studies on CEO-chairman role duality are based on two approaches from agency theory and stewardship theory[29]. These two theories have different viewpoints where agency theory argues against the CEO-chairman role duality, while stewardship theory supports the CEO-chairman role duality. Agency theory, which stems from an economics-based paradigm, views individual as a rational actor who tends to maximise self-interest which deviates from shareholders' interests (Jensen and Meckling 1976). On the other hand, stewardship theory, which stems from the sociology and psychology paradigm, provides an alternative view – CEO-chairman role duality enables the CEO to gain full structural power and the authority to mobilise the company's resources to attain excellent corporate performance (Donaldson and Davis 1991; Hernandez 2012). This study adopts agency theory, thus supports separating the roles of CEO and board chairman.

The board chairman is responsible to run board meetings and oversee the process of recruiting, evaluating, terminating, and remunerating the executive directors including CEO, while the CEO is responsible for the day-to-day business operation as well as setting and implementing corporate strategy (Jensen 1993; Weir and Laing 2001). Fama and Jensen (1983, 18) postulate that when CEO-chairman role duality exists, there is an 'absence of separation of decision management and decision control'. In other words, CEO-chairman role duality precludes the clear separation of the decision

[29] Stewardship theory postulates that effective management is based on the principle of the unity of command. CEO-chairman role duality facilitates greater understanding and knowledge of the operations and result in better corporate performance because the responsibilities and decisions are restricted to one person (Donaldson and Davis 1991).

making and the monitoring functions. In this instance, the board is ineffective in providing oversight over managerial decisions and activities. CEO-chairman role duality structure gives the CEO increased levels of influence which exacerbates the agency problems. Jensen (1993) and Core, Holthausen, and Larcker (1999) document that when the CEO is also the board chairman, agency problems become more severe as it is difficult for shareholders and board of directors to challenge the CEO's decisions. Combining the positions of CEO and chairman makes an individual powerful to control the flow of information to the board and manipulate the agenda of board meetings easily (Essen, Oosterhout and Carney 2012; Dunn 2004). Such powerful CEO may be driven by self-interest and will undertake self-serving activities that could be detrimental to the economic welfare of shareholders (Rashid 2010). In short, CEO-chairman role duality structure compromises the effectiveness of board governance.

Prior studies show that the board's function to oversee management is compromised when the CEO is also the board chairman. For instance, Goyal and Park (2002), by examining S&P companies, note that when the CEO is also board chairman, he/she is less likely to be removed following the poor firm performance because the board becomes less effective in making CEO replacement; Dunn (2004) report that the companies with role duality structure are more likely to publish fraudulent financial statements; Bassett, Koh, and Tutticci (2007) report that CEO-chairman role duality is associated with lower levels of mandatory disclosure in the Australian companies; Kim et al. (2009) show that CEO-chairman role duality is associated with higher levels of unrelated diversification in the US companies; Bliss (2011) document that the CEO-chairman duality structure compromises the board independence of Australian companies because he finds out that the positive association between board independence and audit fees only exists in the companies without CEO-chairman role duality; Duru, Iyengar, and Zampelli (2016), by drawing samples from ExecuComp, ISS (formerly RiskMetrics) and Compustat databases, report that CEO-chairman role duality has significant negative influence on the firm performance due to managerial entrenchment. Overall, past studies clearly evident that CEO-chairman role duality diminishes the extent of board monitoring; excessive power enables the CEO cum chairman to control the management decisions and actions in his/her interest. Adrian,

Wright, and Kilgore (2016) document that the directors and shareholders strongly prefer the roles of CEO and board chairman to be held by different individuals. Among other corporate governance attributes, CEO-chairman duality is regarded as the most important governance attribute (Adrian, Wright and Kilgore 2016).

To date, there are limited and inconclusive findings with regard to the association between CEO-chairman role duality and executive remuneration (Conyon and Peck 1998; Core, Holthausen and Larcker 1999; Ramaswamy, Veliyath and Gomes 2000; Cyert, Kang and Kumar 2002; Grinstein and Hribar 2004; Ghosh 2006; Theeravanich 2013). Core, Holthausen, and Larcker (1999) and Cyert, Kang, and Kumar (2002), by examining the US companies, find out that CEO remuneration is higher when the CEO is also the board chairman. Grinstein and Hribar (2004), by studying the bonuses of the CEOs who involve in the merger and acquisition activities in the US context, report that CEOs who are also the board chairmen receive higher bonuses than the CEOs who are not. Ghosh (2006), by using 462 Indian manufacturing companies over the period from 1997 to 2002, reports that when the CEO is also the board chairman, board remuneration increases by 16.4%. Taken together, their findings substantiate that CEO-chairman role duality compromises the board governance on remuneration arrangement.

On the other hand, Conyon and Peck (1998), by using 94 UK companies over the period from 1991 to 1995, find out that CEO-chairman role duality is not a robust driver of top management remuneration, suggesting that role duality does not fully capture CEO power in relation to establishing remuneration packages. Abdullah (2006), by using 2001 single-year data, report an insignificant association between the CEO-chairman duality and directors' remuneration in Malaysian listed companies. Thus far, there are only few empirical studies in the context of family companies. Ramaswamy, Veliyath, and Gomes (2000), Connelly, Limpaphayon, and Nagarajan (2012) and Theeravanich (2013) report that CEO-chairman role duality has no significant bearing effect on CEO remuneration in Indian family companies, executive remuneration in Thai family companies, and director remuneration in Thai family companies respectively. They do not provide explanation for the insignificant association.

The prominent corporate governance principles, such as the Cadbury Committee Report 1992 and Hampel Committee Report 1998, recommend the roles of board chairman and CEO to be separated as to ensure a balance of power (Cadbury Committee 1992; Hampel Committee 1998). Likewise in Malaysia, the MCCG requires the positions of board chairman and CEO to be held by different individuals, and the chairman must be a non-executive member of the board (Securities Commission Malaysia 2012). In general, policy makers, regulators, and agency theory advocators urge for the separation of CEO and board chairman positions in order to ensure the effectiveness of board governance.

Voordeckers, Gils, and Heuvel (2007) note that CEO-chairman role duality structure is prevalent in Belgian family companies. This study proposes that CEO-chairman role duality structure would enable the CEO, particularly the family CEO, to exercise strong control in the family companies. Holding the highly symbolic position of board chairman provides the family CEO with a wider power and control. CEO-chairman role duality in family companies could be a sign of family entrenchment. The board effectiveness in governing executive remuneration will be compromised when the CEO is also the board chairman, as he or she is able to control the board agenda. Consequently, the following hypothesis is considered:

H_5: CEO-chairman role duality has a positive association with executive remuneration.

3.5.5 Remuneration Committee

As the primary internal governing mechanism, board of directors plays a critical role in safeguarding the shareholders' interests by designing optimal remuneration contracts. The determination of remuneration packages is typically delegated to a subcommittee – remuneration committee. Remuneration committee concerns with the setting of remuneration packages that attract and retain top management, meanwhile provide the right incentives for directors to operate in shareholders' interests (Main and Johnston 1993; Murphy 1999; Conyon and He 2004; Sapp 2008; Veliyath et al. 2016).

Williamson (1985) posits that without an independent remuneration committee, the directors would appear to write their own remuneration contracts with one hand and sign them with the other hand. The regulators and activist investors regularly call for the reform in remuneration committee composition (Anderson and Bizjak 2003; Appiah and Chizema 2015; Catuogno, Arena and Viganò 2016). The concern about the composition of remuneration committee arises from the fact that executive remuneration is the most crucial contracting tool that aligns the interests of managers and shareholders. Remuneration committee that does not optimally structure the remuneration packages can impose huge agency costs and inefficiencies (Anderson and Bizjak 2003). Remuneration committee should be made up of the independent directors and they are expected to act as the objective decision makers as to ensure the appropriate levels of executive remuneration (Mangel and Singh 1993; Cybinski and Windsor 2013; Appiah and Chizema 2015). Lee (2014), by using 2,795 observations from seven East Asian economies namely Singapore, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, and Philippines, reports that the positive association between the CEO remuneration and CEO power is attenuated by the proportion of independent directors on the remuneration committee. The finding indicates that in the companies helmed by powerful CEOs, CEOs receive lower level of remuneration when the remuneration committees monitor CEO remuneration setting process effectively.

Main and Johnston (1993), by using 220 large publicly held British companies, note that the presence of remuneration committee is associated with higher levels of remuneration. Conyon and Peck (1998), by using panel data on large publicly traded UK companies, also find that the companies with the presence of remuneration committee or with a higher proportion of outside directors on remuneration committee pay higher levels of top management pay. Moreover, Sapp (2008), by using 416 Canadian public listed companies, reports that the proportion of independent directors on remuneration committee is positively associated with CEO remuneration. Słomka-Gołębiowska (2016) reports that the larger the proportion of independent directors on the remuneration committee, the higher the level of total executive cash remuneration in Poland banks. He notes that the executive directors at banks where there are greater number of independent directors on remuneration committee are paid above the market rate. Taken together, their findings provide little empirical support for the notion that

remuneration committee can be an extension of governance mechanism that tailors executive remuneration to produce incentive effects that are to the benefit of shareholders. To some extent, the remuneration committee may have been captured by the executive directors or management (Crystal 1991; Main and Johnston 1993; Sapp 2008; Słomka-Gołębiowska 2016).

On the other hand, Benito and Conyon (1999) report that the presence of remuneration committee has no significant influence on the highest paid director's remuneration in the UK companies. Similarly, Anderson and Bizjak (2003), by using 110 companies listed on the NYSE, find no evidence that outside directors on remuneration committee play significant role in determining CEO pay mix, pay level, and pay sensitivity. Gregory-Smith (2012), by studying FTSE 350 companies, finds no association between the remuneration committee independence and CEO pay level. These findings show the ineffectiveness of remuneration committee in governing remuneration arrangement.

To a large extent, the studies pertaining to the remuneration committee focus on CEO remuneration and are conducted in the context of developed countries. This study fills the literature gap by examining the association between remuneration committee and executive remuneration in the context of a developing country, Malaysia. To date, there are only a handful empirical studies in the Malaysian context (Lim and Yen 2011; Yatim 2013). Lim and Yen (2011), by using 191 listed companies over the study period from 2002 to 2007, show that the bonuses paid to executive directors in the companies with a higher proportion of independent directors on remuneration committee is lowered by 0.2% compared to those with a lower proportion. In contrast, Yatim (2013), by using 2008 single-year data, finds a significant positive association between the existence of remuneration committee and directors' remuneration. Her finding indicates that the establishment of remuneration committee does not help to reduce the remuneration level or achieve efficiency in remuneration contracts. These inconclusive findings cast doubt pertinent to the governing role of remuneration committee. Most of the past studies refer to the companies with dispersed ownership structure, little is known about the effectiveness of remuneration committee in the

companies with concentrated ownership structure, particularly family companies. This study fills this literature gap.

Jaafar, James, and Abdul-Wahab (2012) suggest that the uniqueness of family company may affect the role played by the remuneration committee. Family directors could use their control and power to mitigate the effective monitoring of remuneration committee. The non-executive directors on remuneration committee may face the conflict of interest during their job: either to follow the instructions of family directors to increase their personal wealth, or to be the independent representative of minority shareholders. KPMG Malaysia (2012) documents that when the remuneration committee consists of both executive and non-executive directors, there is a genuine fear that the latter may find it hard to confront the former. By using 537 listed companies over the period from 2007 to 2009, Jaafar, James, and Abdul-Wahab (2012) report that the remuneration committee is less effective in family-owned companies, suggesting that family ownership reduces the monitoring effect of remuneration committee and enables the manipulation of power and control for expropriation via remuneration arrangement. They measure remuneration committee in terms of size of remuneration committee and non-family non-executive directors.

Under Malaysian legislation, directors' remuneration, with the exception of fees, is not subject to shareholders' approval even though the amounts may be substantial. Thus, the shareholders have to rely on the remuneration committee to recommend the remuneration framework (KPMG Malaysia 2012). The revised MCCG 2012 recommends that the board should establish remuneration committee, which consists exclusively or a majority of non-executive directors (Securities Commission Malaysia 2012). This is adopting the Cadbury Committee Report 1992 which seeks to rein in executive influence over the pay-setting process by strengthening the role of non-executive directors (Cadbury Committee 1992), and also the Greenbury Committee Report 1995 which recommends the establishment of a subcommittee of the board that comprises solely non-executive directors to determine executive remuneration (Greenbury Committee 1995). To date, there are limited empirical studies on the association between the remuneration committee and executive remuneration in family companies and developing countries. This study fills the literature gaps by

investigating the governing role of independent non-executive directors on remuneration committee in Malaysian listed family companies. The following hypothesis is proposed:

H_6: Independent non-executive directors on remuneration committee have a negative association with executive remuneration.

3.5.6 Institutional Ownership

The outbreak of several corporate scandals reflects the ineffectiveness of board of directors as a governance mechanism. Hence, instead of relying on the board of directors, institutional investors have become increasingly willing to use their ownership rights to pressure the managers to act in the best interest of shareholders (Cornett et al. 2007). Ivanova (2017) document that it is now widely accepted that one of the culprits of the 2008 global financial crisis is the failure of institutional investors to monitor their investee companies.

A recent survey by McCahery, Sautner, and Starks (2016) report that poor corporate governance and excessive remuneration, among others, are the essential interests of institutional investors around the world. They document that the intervention of institutional investors is mostly triggered by the concerns about corporate governance issues or strategies rather than short-term issues such as profitability. Recently, the Norway's wealth fund - the world largest sovereign wealth fund, announces that it plans to scrutinise executive pay of the companies under its portfolio due to the shareholders' concern (Milne 2016). The institutional investors have been pushing to be more active in corporate governance issues.

Institutional investors are different from individual investors in several ways. Institutional investors manage a large pool of investment funds and have fiduciary duties to serve their contributors (Hawley and Williams 1997; Ozkan 2007). Institutional investors have cost advantages to monitor the management because of economies of scale and diversification (Diamond 1984). In contrast, individual investors do not have big enough stake in the companies to absorb the costs of monitoring management (Shleifer and Vishny 1986). Besides, individual investors

have less time and resources to gather firm-specific information, and the small size of their investments precludes them from obtaining direct access to the management (Schnatterly, Shaw and Jennings 2008).

The growing presence of institutional investors in the equity markets has grabbed the attention of researchers and regulators regarding their role in the monitoring, disciplining, and influencing the companies (Graves and Waddock 1990; Black 1992; Hawley and Williams 1997; Hartzell and Starks 2003; Cornett et al. 2007; Ozkan 2007; Aggarwal et al. 2011). Aggarwal et al. (2011), by examining the role of institutional investors in 23[30] countries over the periods from 2003 to 2008, report that the companies with higher institutional ownership are more likely to terminate poorly performing CEOs and exhibit improvements in valuation over time. Their results suggest that institutional investors promote good corporate governance practices around the world.

As early as Hirschman (1970), past studies document two options that the institutional investors use when they are dissatisfied with the investee companies: (i) voice – direct intervention to affect the management, or (ii) exit – selling shares and leave the company (Graves and Waddock 1990; Black 1992; Hawley and Williams 1997; Parrino, Sias and Starks 2003; Gillan and Starks 2003; Aggarwal et al. 2011; Edmans 2014; Dasgupta and Piacentino 2015; McCahery, Sautner and Starks 2016). Institutional investors can direct intervene through several ways, such as discussing with management, proposing specific actions to the management, criticising and voting against the management during annual meetings (McCahery, Sautner and Starks 2016). Alternatively, institutional investors can use the threat of exit to influence the management. Block share selling by institutional investors would have an impact on the corporate governance via several potential effects, such as depressing the share price, signalling information of bad news to other investors and causing the changes in shareholder composition. (Dasgupta and Piacentino 2015; Brown and Brooke 1993). These effects punish the management ex post.

[30] The 23 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Notwithstanding that, prior studies point out that the monitoring by institutional investors may not be effective as there are potential liquidity costs (Coffee 1991; Bhide 1994; Maug 1998; Manconi, Massa and Yasuda 2012; McCahery, Sautner and Starks 2016). Liquid stock market may reduce the incentives of institutional investors to monitor because it allows them to sell their stocks more easily. McCahery, Sautner, and Starks (2016) proclaim that the investors who care more about stock liquidity engage less with the investee companies. They contend that stock liquidity discourages monitoring; stock liquidity allows investors to exit or sell the shares quickly rather than intervene in the management.

Further, Pound (1988) postulates that institutional investors face the conflict of interests and may vote with the management against their fiduciary interests due to the absence of regulations for disclosing their voting behaviour. Institutional investors' voting behaviours are frequently swayed by the existing or potential business relationships with investee companies (Pound 1988; Brickley, Lease and Smith 1988; Aggarwal et al. 2011; CvijanoviĆ, Dasgupta and Zachariadis 2016). For instance, an insurance company may hold a significant block of a company's shares and at the same time is its primary insurer. Voting against the management may affect existing business relationship (Pound 1988). Brickley, Lease, and Smith (1988) evident that institutional investors such as banks, trusts, and insurance companies are less likely to oppose management when voting on antitakeover amendments due to the existing business relationship with the investee companies. Similarly, CvijanoviĆ, Dasgupta, and Zachariadis (2016) report that the business ties between the mutual funds and investee companies lead to pro-management voting.

In addition, the conflict of interests also exists within the institution itself. Ivanova (2017) reveals that often times the socially responsible investment department of an institution expresses interests to engage on specific topics, but encounter disagreement from the equities department or lack support from the senior management. Moreover, Ivanova (2017) documents that there are several challenges institutional investors face when trying to monitor and influence the investee companies, such as lack of investee company's transparency, low client demand for engagement, lack of investor experience on activism and how to effectively engage with investee companies.

Past studies show inconclusive findings pertaining to the effectiveness of institutional investors in monitoring remuneration arrangements. Hartzell and Starks (2003), and Almazan, Hartzell, and Starks (2005), by examining S&P companies, report that institutional ownership is positively associated with the performance sensitivity of managerial remuneration, and negatively associated with the level of managerial remuneration. Ozkan (2007), by studying 414 large UK companies, finds out that institutional ownership and block-holder ownership have a significant negative influence on CEO remuneration, suggesting that the block-holders and institutional investors play an active monitoring role. These findings evident that institutional investors are an effective external mechanism that help to mitigate the agency problem by strengthening the pay-performance link and ensuring the remuneration arrangements are in the best interests of shareholders.

On the other hand, Cosh and Hughes (1997) reveal that the presence or absence of institutional investors makes no appreciable difference on the pay-performance sensitivity and remuneration level in the UK companies. Similarly, Dong and Ozkan (2008) report that institutional ownership, as a whole, does not have any significant influence on the director's remuneration and pay-performance link in the UK companies. These findings challenge the conventional tenet that institutional investors are an effective monitoring mechanism that could rein in remuneration level and alleviate the agency problem.

Overall, the empirical findings with regard to the effectiveness of institutional investors in governing CEO or directors' remuneration are mixed. The majority of studies are conducted in the context of developed countries, particularly the United Kingdom and the United States. The related empirical studies in the context of developing countries are limited. It is ambiguous whether the institutional investors in developing countries are as effective as those in developed countries. In the Malaysian context, Abdul-Wahab and Abdul-Rahman (2009) find a negative association between institutional ownership and director remuneration, indicating the governing effectiveness of institutional investors. However, they note that the negative association becomes less significant in politically connected companies, suggesting that political connection mitigates institutional monitoring in the relationship-based

economies. Lim and Yen (2011) report that external block-holder does not have any significant influence on executive directors' salary, suggesting they play a passive governing role. These inconclusive findings cast doubt pertaining to the monitoring role of institutional investors in Malaysia. Institutional investors are expected to play a significant role in relation to shareholders' protection in Malaysia especially after the Asian Financial Crisis 1997, which is caused by the weak institutional environment, lack of corporate governance mechanisms, and crony capitalism (Abdul-Wahab and Abdul-Rahman 2009; Abdul-Rahman 2006).

To a large extent, the measurement of institutional ownership by the past studies do not differentiate between domestic and foreign institutional investors. For instance, Hartzell and Starks (2003), and Almazan, Hartzell, and Starks (2005) measure institutional ownership by using the ownership of the five largest investors or based on Herfindahl index of institutional fractional holdings. Dong and Ozkan (2008) measure institutional ownership by using the sum of the significant financial institutional shareholdings that exceed 3%. Lim and Yen (2011) use the ownership of the largest single external block-holder that exceeds 5% of the firm's equity to measure an external block-holder ownership. This study extends the existing literature by being the first study in a developing country, particularly Malaysia, which segregates the institutional ownership into domestic and foreign.

Past studies point out the differences between domestic and foreign institutional investors in monitoring and influencing the companies (Gillan and Starks 2003; Ahmadjian and Robbins 2005; Ferreira and Matos 2008; Aggarwal et al. 2011; Croci, Gonenc and Ozkan 2012). Foreign institutional investors can use both exit and voice to make their interests clear to management. The threat of exit by foreign investors is salient. They have an inordinate influence on the share price because they are much more active in buying and selling shares (Ahmadjian and Robbins 2005). Yoshikawa, Rasheed, and Brio (2010) maintain that although foreign institutional investors hold relatively small block of shares, they tend to have a disproportionate effect on the management decisions and performance of their investee companies.

Gillan and Starks (2003) and Aguilera and Cuervo-cazurra (2004) postulate that the companies as well as the countries may be motivated to improve their corporate governance in order to attract foreign investments. Aguilera and Cuervo-cazurra (2004), by collecting data from 49[31] countries, note that the presence of foreign institutional investors is positively related to the number of corporate governance practices adopted by the companies. Ferreira and Matos (2008), by examining the institutional investors in 27[32] countries, find that the companies with a higher level of foreign institutional ownership have higher firm valuations, better operating performance, and lower capital expenditures, suggesting foreign institutional investors are involved in monitoring corporations worldwide. Aggarwal et al. (2011), by studying the influence of institutional investors in 23[33] countries, report that firm-level governance is positively associated with foreign institutional ownership. They find that foreign, but not domestic, institutional investors make the boards more likely to have a majority of independent directors and less likely to adopt staggered board provision. They maintain that domestic institutional investors play a dominant role in improving the governance of the companies located in countries with strong shareholders' protection, however in the countries with weak shareholder's protection, the main role of improving governance is played by the foreign institutional investors. Overall, these past studies suggest that foreign institutional investors play an influential role in promoting and enhancing the corporate governance systems around the world. Pertaining to the remuneration payout, Croci, Gonenc, and Ozkan (2012) report that foreign institutional investors possess a positive significant influence on CEO remuneration in Continental Europe, while domestic institutional investors do not have any significant influence. Their findings suggest that internationalised companies offer a larger CEO remuneration. In light of these studies, this study expects that domestic

[31] The 49 countries are Australia, Belgium, Brazil, Canada, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, Portugal, Singapore, South Africa, Spain, Sweden, Thailand, the United Kingdom and the United States.

[32] The 27 countries are the United States, the United Kingdom, France, Canada, Germany, Sweden, Japan, Netherlands, Switzerland, Italy, Norway, Ireland, Belgium, Denmark, Hong Kong, Spain, Singapore, Finland, Luxembourg, South Africa, Australia, India, Austria, Portugal, Liechtenstein, Poland and Greece.

[33] The 23 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

and foreign institutional investors would have a different influence on the executive remuneration in Malaysian family companies.

In 2009, Malaysian government has disbanded the FIC (an agency associated with foreign equity restrictions) and lifted all the foreign equity ownership restrictions in 27 service subsectors. These initiatives are to stimulate the growth of foreign investments (Hill, Tham and Zin 2012). According to the Emerging Markets Committee (2012), approximate 31% of Malaysia's market capitalisation is accounted by the foreign institutional investors' investment in 2010. Foreign institutional investors, in complying with investment criteria, demand higher standards of corporate governance in investee companies (Emerging Markets Committee 2012). Malaysia is the fourth largest recipient of FDI in ASEAN, behind Singapore, Indonesia, and Thailand. In Asia, as a whole, Malaysia ranks the seventh top FDI recipient (Kok 2014). In 2016, the foreign investments account for 46.8% or amount to RM27.4 billion for the total investments approved for the year (Malaysian Investment Development Authority 2016). The growing presence of foreign institutional investors in Malaysia's equity market and their demand for strong corporate governance practices raise interesting question with regard to their role in influencing and monitoring the companies. By covering the period from 2010 to 2014, this study provides a timely contribution by examining the role of foreign institutional investors in governing executive remuneration in Malaysian listed family companies, immediate after the government's liberalisation of foreign investment in 2009.

To date, there are only a handful of studies that examine the influence of institutional ownership in the context of family companies. Of the few studies, Maury and Pajuste (2005), by using 136 non-financial Finnish listed companies, report that when the financial institution is the second or third largest shareholder in a family-controlled company, the firm value is enhanced and the tendency of controlling family to extract private benefits is reduced due to the effective monitoring by institutional investor. Similarly, Jara-Bertin, Lopez-Iturriaga, and Lopez-de-Foronda (2008), by examining 1,208 companies from 11 European countries, unveil that the firm value of a family company increases when the second largest shareholder is an institutional investor. They document that the family shareholders may pressure managers to prioritise their

interests even though such actions may be detrimental to the interests of other shareholders. The large non-family shareholders in family companies are likely to play an active monitoring role not only due to their relevant stake but also due to the need to protect themselves from the possible excess use of power by the family shareholders. In addition, Filatotchev, Lien, and Piesse (2005) find out that institutional ownership is positively associated with the firm performance of Taiwanese family-controlled companies. In general, these studies show that the institutional investors are effective monitors in family companies. However, there are limited studies pertaining to their role in governing executive remuneration in family companies (Croci, Gonenc and Ozkan 2012). This study contributes to the extant literature by examining the influence of institutional ownership on executive remuneration in Malaysian listed family companies.

To reiterate, this study extends the existing literature on institutional ownership in two ways: (i) segregate institutional ownership into domestic and foreign, and (ii) specifically examine their monitoring role in family companies. This study hypothesises that institutional investors could enhance the corporate governance of family companies and protect the minority shareholders from the expropriation by family shareholders via executive remuneration. The following hypotheses are proposed:

H_7: Domestic institutional ownership has a negative association with executive remuneration.

H_8: Foreign institutional ownership has a negative association with executive remuneration.

3.5.7 Revised MCCG 2012

As discussed in section 2.5.3, the MCCG has gone through second round of revision in 2012 after taking into account the changing market dynamics, international developments and the need to continuously recalibrate and enhance the effectiveness of the corporate governance framework (Securities Commission Malaysia 2013). Among others, the key amendments and areas that have been strengthened in the

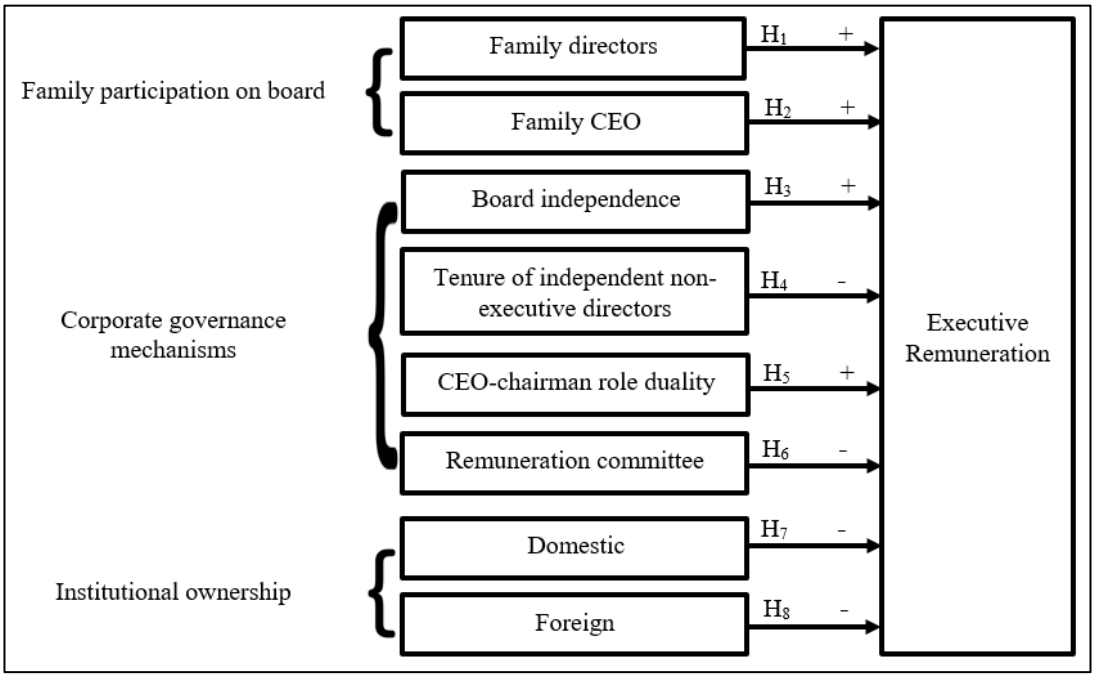
revised MCCG 2012 include independence of independent directors, nine-year tenure cap for independent directors, role separation of board chairman and CEO, directors' remuneration, remuneration committee, and the relationship between company and shareholders (Securities Commission Malaysia 2013). The MCCG 2012 takes effect on 31st December 2012.

On this premise, it is expected that the revised MCCG 2012 would enhance the corporate governance of remuneration policy and rein in executive remuneration, at the same time, lessen the Type II agency conflict. Accordingly, the following hypothesis is proposed:

H_9: The revised MCCG 2012 has a negative association with executive remuneration.

3.6 Conceptual Schema

Based on the literature review and hypotheses development, the following conceptual schema is proposed for this study.



3.7 Summary

Agency theory is employed by this study as the theoretical framework. A theory helps to identify relevant variables and associations, interpret and understand the observations, and advance explanations. A theory describes (i.e. what, how, when, who, where) and explains (why) (Whetten 1989). This positivist study examines the influence (***how***) of family participation on board (***what)***, corporate governance mechanisms (***what***), and institutional ownership (***what)*** on the executive remuneration (***what***) of listed family companies (***who***) in Malaysia (***where***). The coefficient results will answer the ***why***.

The board of directors and institutional investors are suggested by classical agency theory to mitigate the conflict between shareholders and management (Type I agency conflict). As such, voluminous studies premise on Type I agency conflict to examine the influence of board of directors and institutional ownership on executive remuneration. Limited studies examine the roles of board of directors and institutional investors in governing executive remuneration in the companies with concentrated ownership structure, specifically family companies. Succinctly, there are theoretical and literature gaps whether the board of directors and institutional investors could govern the executive remuneration and alleviate the Type II agency conflict in family companies.

This predominance of family companies shapes particular corporate governance challenges not always considered in the markets where the ownership is widely dispersed and the board of directors is mainly composed of external and professional directors. Family involvement in ownership, governance, and management makes a family company different from non-family company. The Type II agency conflict alters the dynamics of corporate governance process. This casts doubt pertaining to the roles of board of directors and institutional investors in governing executive remuneration in family companies.

Executive remuneration in Malaysia has been on the rise over time, and family companies are among the top companies that paid the highest directors' remuneration. This raises a concern about the possibility of wealth expropriation at the expense of

minority shareholders. The institutional investors and minority shareholders invest the capital into family companies, and the controlling family could misappropriate the funds through ungoverned remuneration payout. On this premise, executive remuneration of family companies has to be studied empirically as Malaysia's economy depends heavily on the family companies. The unaccountability of family companies would deter the institutional investors' preference, particularly foreign investors, and this would indirectly impede the country's economic growth.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.0 Introduction

Chapter four presents the research methodology employed to test the influence of (i) family participation on board, (ii) corporate governance mechanisms, and (iii) institutional ownership on executive remuneration of Malaysian listed family companies. This chapter is organised as follows: section 4.1 illustrates the research design; section 4.2 discusses the sample selection; sections 4.3, 4.4 and 4.5 present the measurements of the dependent variable, independent variables, and control variables respectively; section 4.6 outlines the model specification; sections 4.7 and 4.8 describe the statistical analysis methods and additional analyses respectively; and section 4.9 provides a summary of the chapter.

4.1 Research Design

Prior studies on executive remuneration employ quantitative approach using secondary data (Gomez-Mejia, Larraza-Kintana and Makri 2003; Cheng and Firth 2006; Abdul-Wahab and Abdul-Rahman 2009; Jiang and Peng 2011; Croci, Gonenc and Ozkan 2012; Yatim 2013; Wang, Zhao and Chen 2017). The main causes impeding the use of qualitative approach are the difficulties in gaining access to the individuals involved in remuneration setting, and the sensitivity of the subject matter to the respondents. The executive directors would be reserved on what they reveal and may avoid discussing remuneration in detail. Therefore, the use of questionnaires or interviews would generate less, bias, and incomplete responses from the executive directors.

This study investigates the factors influencing executive remuneration of Malaysian listed family companies, in particular, family participation on board, corporate governance mechanisms, and institutional ownership. This study uses a positivist empirical research methodology seeking to answer the ‘what’ (the extent of executive remuneration over time in Malaysia) and the ‘why’ (factors influencing such extent) questions rather than the ‘how’ question. The questions require a considerable number of samples in order to generalise the results. Hence, this study employs quantitative approach using secondary data.

The majority of prior studies in the Malaysian context use a single-year data to examine the association between corporate governance mechanisms and executive remuneration (Yatim 2013; Abdullah 2006). Different from past studies, this study employs longitudinal analysis using five-year panel data from 2010 to 2014 in an enhanced corporate governance regime. Panel data refers to the pooling of observations on a cross-section of households, countries, companies, etc., over several time periods (Baltagi 2005; Gujarati and Porter 2010). Baltagi (2005) documents there are several benefits of using panel data, which include: (i) the ability to control individual heterogeneity; (ii) more informative data, more variability, less collinearity among the variables, more degrees of freedom and more efficiency; and (iii) the capability to identify and measure effects that are simply not detectable in pure cross-section or pure time-series data. The rationale for choosing the period from2010 to 2014 is to provide insight into the efficacy of the revised MCCG 2012 in governing executive remuneration of listed family companies. To date, there is a lack of empirical studies examining the effectiveness of the revised MCCG 2012.

This study obtains secondary data from two main sources: (i) individual sample family company's annual reports, and (ii) DataStream database. The annual reports can be found and downloaded from Bursa Malaysia's authoritative website: http://www.bursamalaysia.com/market/listed-companies/list-of-companies/main-market/. The DataStream database is available at Curtin University Malaysia. Annual reports are the main source to obtain the data of dependent variables namely executive remuneration; independent variables comprising family participation on board, corporate governance mechanisms, and institutional ownership; and control variables of family ownership and board size. Meanwhile, the DataStream database is the main source to extract financial data: total assets, total debts, return on assets, and market value to book value of equity.

4.2 Sample Selection

This thesis focuses on the companies listed on the Bursa Malaysia Stock Exchange. The original sampling frame covers the population of listed companies on the Main Board of the stock exchange. Companies in the financial sector including banks, finance, and insurance are excluded from the population as they have unique

characteristics and operate in a different and more stringent compliance and regulated environment (Yatim, Kent and Clarkson 2006). In order to be selected for this thesis analysis, a family company has to meet the following criteria:

1. The family has to hold some identifiable shares and involve in the management, for instance, as the CEO, board chairman, or board directors (Anderson and Reeb 2003; Fernando, Schneible and Suh 2014);
2. The family has to hold at least 20% of the equity directly or indirectly through private company (Sendirian Berhad) or public listed company (Berhad). (Amran and Che-Ahmad 2013; Azizan and Ameer 2012; Barontini and Bozzi 2011; Sraer and Thesmar 2007; Faccio and Lang 2002). Claessens et al. (1999) maintain that 20% of equity held by a family is sufficient to ensure a conclusive influence over the business;
3. The family remains the biggest shareholder throughout the study period; and
4. Annual reports and information for all variables must be available throughout the study period.

The family relationships between the directors as well as the family relationships between the directors and major shareholders are disclosed under the section *Profile of Directors* in the annual report. Appendix 4 .1 shows an example of *Profile of Directors o*f 2010 annual report of a sample family company, OKA Corporation Bhd, which shows the presence of parents and children from a family on the board.

Pursuant to Chapter 9 – Continuing Disclosure Section 9.25 of Bursa Malaysia Listing Requirements, the identities of the shareholders and the actual total shareholdings in excess of 5% have to be disclosed in the annual reports. These shareholders are deemed to be substantial shareholders of the PLCs. Further, Section 134(12)(c) of the Companies Act 1965 requires the PLCs to disclose the total indirect equity stakes of substantial shareholders that are held by other related family members in the company. Consequently, the requirements by Bursa Malaysia Listing Requirements and the Companies Act 1965 facilitate the identification of family ownership for this study. This information can be obtained under the section *List of Substantial Shareholdings* in the annual report. Appendix 4.2 shows an extract of *List of Substantial*

Shareholdings of a sample family company, OKA Corporation Bhd, in which the parents and children collectively hold 58.41% of the equity.

Applying criteria 1 and 2 stated in the preceding paragraph, 445 listed family companies are identified in the base year 2010. This is approximately 45% of the total 978 companies listed on the Main Board of Bursa Malaysia in 2010. This proportion of family companies concurs with prior studies (Carney and Child 2013; Ibrahim, Abdul-Samad and Amir 2008).

The 445 family companies are further subjected to filtering to ensure all the criteria for sample selection is being adhered to throughout the five-year study period. Out of the 445 family companies, 41 companies do not have the annual reports and the relevant information; 75 companies have undergone changes in ownership structure and/or board structure, rendering the first and second criteria not satisfied; and 50 companies are delisted during the five-year study period. After excluding the PLCs that do not fulfil the criteria, the final sample comprises a total of 279 family companies, representing about 63% of the family PLCs and approximately 30% of the total PLCs in 2010. Over the five-year study period, the sample size of 279 companies per year makes up a total of 1,395 firm-year observations. Table 4.1 summarises the sampling procedure followed in this research.

The data used for testing the hypotheses is obtained from the annual reports of these 279 listed family companies for each year from 2010 to 2014, as well as from the DataStream database. This longitudinal data is explicitly used to examine the association between executive remuneration and explanatory variables over time.

Table 4.1: Family companies listed on the Main Board of Bursa Malaysia

	Number
Total family PLCs in the Main Board of Bursa Malaysia in 2010	445
Minus:	
Annual reports and the information for certain variables are unavailable[34]	41
Changes in ownership and/or board structure due to:	75
(i) family shareholders are no longer the biggest shareholders and hold little stake of shares;	
(ii) the ownership structure changes and family shareholders are no longer the shareholders;	
(iii) the board structure changes and family directors are no longer on the board of directors	
Delisted during the study periods	50
Sample family PLCs for this study	**279**
Percentage of sample companies over total family PLCs in 2010	**63%**

4.3 Dependent Variable – Executive Remuneration

Pursuant to Appendix 9C Item (11) of the Bursa Malaysia Listing Requirements, '*the remuneration of directors of the listed issuer for the financial year and in the following manner: (a) the aggregate remuneration of directors with categorisation into appropriate components (e.g. directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on an estimated money value) distinguishing between executive and non-executive directors; and (b) the number of directors whose remuneration falls in each successive band of RM50,000 distinguishing between executive and non-executive directors*'. This is the only legislative requirement for the disclosure of aggregate remuneration of directors in the annual reports. PLCs are not mandated to disclose the remuneration details of each director. According to the Malaysia-ASEAN Corporate Governance Report 2014 by the Minority Shareholder Watchdog Group (2014), only about 8% of the PLCs assessed in 2014 disclose the remuneration details of each director. Due to the lack of mandatory requirement, a majority of Malaysian PLCs report only the total executive directors' remuneration and total non-executive directors' remuneration in their annual reports. Appendix 4.3 shows an example of the disclosure of directors' remuneration of a sample family company, PJ Development Holdings Berhad.

[34] 4 companies do not disclose the shareholdings; 6 companies do not disclose the executive remuneration, 1 company do not have executive director in 2014; 11 companies do not have 2010 annual report; 5 companies do not have 2011 annual reports; 3 companies do not have 2012 annual reports; 7 companies do not have 2013 annual report; 4 companies do not have 2014 annual report.

As such, this study uses the total executive directors' remuneration instead of individual executive director's remuneration due to limited disclosure of Malaysian PLCs. In this study, executive remuneration is operationalised as the total remuneration received by executive directors, which includes salaries, fees, bonuses, allowances, benefits in kind, and other emoluments. Share options are excluded from the measurement due to the inadequacy and non-disclosure of this information in the annual reports. Bacha et al. (2009) identify only 26 PLCs disclose the Employee Share Options. Malaysian PLCs are passive to disclose the remuneration details especially equity-based remuneration. Likewise, past studies exclude share options from the remuneration measurement due to the data unavailability (Hassan, Christopher and Evans 2003; Cheung, Stouraitis and Wong 2005; Leone, Wu and Zimmerman 2006; Kato and Kubo 2006; Ozkan 2007; Basu et al. 2007; Abdul-Wahab and Abdul-Rahman 2009; Yatim 2013). In fact, neither the Bursa Malaysia Listing Requirements nor the MCCG requires the PLCs to disclose share options granted to the directors. Hence, the executive share options have never been adequately disclosed in the Malaysian PLCs annual reports. The exclusion of share option underestimates the true executive remuneration and poses the main drawback of this study. In order to reduce the non-normality and heteroscedasticity, the total executive remuneration is transformed using natural logarithm (Abdul-Wahab and Abdul-Rahman 2009; Croci, Gonenc and Ozkan 2012; Yatim 2013).

4.4 Independent Variables

The independent variables included in this study are categorised into: (i) family participation on board; (ii) corporate governance mechanisms; and (iii) institutional ownership. Family participation is proxied by the family directors on board and family CEO. Corporate governance mechanisms include board independence, tenure of independent non-executive directors, CEO-chairman role duality, and remuneration committee. Institutional ownership is segregated into domestic and foreign shareholdings. The following sections explain the measurements of each variable.

4.4.1 Family Participation on Board

The data pertaining to family participation on board is available in *Profile of Directors* in the annual report. It is proxied as follows:

i. Family directors on board (*FD*) is measured by the proportion of controlling shareholders and their family members over the total number of board directors (Gomez-Mejia, Larraza-Kintana and Makri 2003).

ii. Family CEO (*FCEO*) is measured by the presence of CEO who is the family member of controlling family. In order to capture this variable into regression, a dummy variable is created. 1 is given if the CEO is a family director; and 0 otherwise.

4.4.2 Corporate Governance Mechanisms

The data of corporate governance mechanisms is extracted from *Profile of Directors* and *Corporate Governance Statement* in the annual report.

i. CEO-chairman role duality (*RD*) is measured using dummy variable. 1 is given when the positions of board chairman and CEO are held by the same person; and 0 if otherwise (Rechner and Dalton 1991; Haniffa and Hudaib 2006; Fahlenbrach 2009; Kamarudin, Wan Ismail and Samsuddin 2012; Yatim 2013; Goh, Rasli and Khan 2014).

ii. Board independence (*ID*) is measured by the proportion of independent non-executive directors over the total number of board directors (Lim and Yen 2011; Husnin, Nawawi and Salin 2016).

iii. Tenure of independent non-executive directors (*IDT*) is measured by the average tenure of the independent non-executive directors on the board (Beasley 1996; Yang and Krishnan 2005; Dhaliwal, Naiker and Navissi 2010; Li et al. 2013).

iv. Remuneration committee (*IDRC*) is measured by the proportion of independent non-executive directors over the total number of directors in remuneration committee (Lim and Yen 2011). This measurement is more precise and goes

beyond those suggested by various codes of corporate governance and measured by prior studies, which are the existence of remuneration committee and the proportion of non-executive directors on remuneration committee (Cadbury Committee 1992; Greenbury Committee 1995; Conyon and Peck 1998; Jaafar, Abdul-Wahab and James 2012; Yatim 2013). This is because around 95% of Malaysian PLCs have established the remuneration committee (Minority Shareholder Watchdog Group 2014b), thus it seems to be meaningless to investigate the existence of remuneration committee. Further, instead of non-executive directors, this study precisely measures the proportion of independent non-executive directors in remuneration committee. This is because the non-executive directors may be interested in major contracts of the company, or may have a major shareholding in the company, or may be a former employee (Hart 1995; Hishammuddin 2004). This will compromise their independence role in setting remuneration.

4.4.3 Institutional Ownership

Institutional ownership data is obtained from *List of Thirty (30) Largest Registered Shareholders* in the annual report. The two categories of institutional ownership are measured as follows:

i. Domestic institutional shareholdings (*DIS*) is measured by the proportion of domestic institutional shareholdings to the total shares outstanding. Appendix 4.4 shows an example of the domestic institutional ownership of a sample family company, Notion Vtec Berhad.

ii. Foreign institutional shareholdings (*FIS*) is measured by the proportion of foreign institutional shareholdings to the total shares outstanding. Appendix 4.5 shows an example of the foreign institutional ownership of a sample family company, PJ Development Holdings Berhad.

4.4.4 Revised MCCG 2012

A year dummy variable is used as the proxy for the revised MCCG 2012, where 0 is given for 2010, 2011, and 2012; while 1 is given for 2013 and 2014. This is because the revised MCCG 2012 takes effect on 31st December 2012.

4.5 Control Variables

The regression model of this thesis includes several control variables that have been ascertained by previous studies to have significant influence on executive remuneration. These variables include family ownership, board size, firm size, firm leverage, lagged firm performance, and growth opportunities.

(i) Family ownership

There have been inconclusive findings on the influence of family ownership on remuneration payout. Gomez-Mejia, Larraza-Kintana, and Makri (2003), by studying the companies extracted from COMPUSTAT database, report a negative association between family ownership and CEO remuneration. In contrast, Haid and Yurtoglu (2006) report a positive association between family ownership and CEO remuneration in the German context. Moreover, Cheung, Stouraitis, and Wong (2005) show a positive association between family managerial ownership and executive remuneration (cash emoluments received by the CEO and the board chairman) in the context of Hong Kong; family control appears to be associated with lower executive remuneration when the CEO and the chairman hold a small stake of ownership, and with higher executive remuneration when they hold significant shareholdings in the companies. Similarly, Lim and Yen (2011) find that when the executive ownership level is less than 23%, a unit increase in ownership will lead to approximately 1.1% decrease in salary; however when the ownership level is between 23% and 76%, a unit increase in ownership will result in approximately 0.8% increase in salary. Therefore, this study includes family ownership as a control variable because the expropriation via executive remuneration could happen at different points of ownership level. Family ownership is measured by the percentage of shareholdings owned by a family.

(ii) Board size

Agency theory advocators suggest that large board size impedes board effectiveness and weakens the corporate governance of executive remuneration (Ozkan 2011; Coakley and Iliopoulou 2006; Ghosh and Sirmans 2005; Core, Holthausen and Larcker 1999). They report a positive association between board size and executive remuneration, arguing that a large board size is associated with communication and coordination problems, and is less effective in monitoring remuneration arrangement. On the other hand, Kashif and Mustafa (2012) provide an alternative explanation for the positive association; a large board size indicates that more capable and skilful people become part of corporate boards, which results in enhanced firm performance and market position, thus, intensifies executive remuneration. Accordingly, this study controls the board size effect and measures it as the total number of directors on board.

(iii) Firm size

Murphy (1985) posits that firm size reflects managerial responsibilities. Executive directors of large firms are paid more than those in small firms because of greater management complexities. Previous studies show a positive association between the firm size and executive remuneration, asserting that firm size is a strong determinant of executive remuneration (Yatim 2013; Lim and Yen 2011; Ghosh 2006; Tosi et al. 2000; Hassan, Christopher and Evans 2003). In this study, firm size is measured by the natural logarithm of total assets of the company (Chu and Song 2012; Yatim 2013; Yunos, Ismail and Smith 2012).

(iv) Firm Leverage

Jensen (1986) postulates that agency conflicts between the shareholders and managers over the payout policies are severe when the company has substantial free cash flow[35]. He documents the use of debt could lessen agency costs by reducing the cash flow available for discretionary spending by managers. In addition, Crespí–Cladera and Gispert (2003) suggest that debt or firm leverage can be served as a governance mechanism. Empirically, Dong and Ozkan (2008) and Yoshikawa, Rasheed, and Brio (2010) report a negative association between firm leverage and director pay in the

[35] Free cash flow is the cash flow in excess of that required to fund all projects that have positive net present values when discounted at relevant cost of capital.

context of the United Kingdom and Japan respectively. Their findings indicate that firm leverage could exert a downward pressure on executive remuneration. Therefore, this study controls the firm leverage effect, which is measured by the ratio of total debts to total assets (Yatim, Iskandar and Nga 2014; Chung, Firth and Kim 2002).

(v) Lagged firm performance

Return on assets, ROA, is a performance measure of accounting income generated for shareholders (Wu 2013). The standard agency model suggests that the level of remuneration is an increasing function of firm performance (Core, Holthausen and Larcker 1999). Executive remuneration paid in the current year is determined by previous year's firm performance. Jensen and Murphy (1990) and Lilling (2006) document that lagged performance measure reduces the potential endogeneity or reverse causality between executive remuneration and firm performance. In addition, Crespí–Cladera and Gispert (2003) maintain that lagged accounting measure is more powerful than current accounting measure in explaining the directors' remuneration. They show a positive association between directors' remuneration and lagged ROA in Spanish companies. Moreover, Basu et al. (2007) report similar finding in Japanese companies. Their findings indicate that lagged firm performance is a significant determinant of remuneration level. Hence, this study includes lagged ROA as a control variable. It is measured as the ratio of net income to total assets (Gomez-Mejia, Larraza-Kintana and Makri 2003; Croci, Gonenc and Ozkan 2012).

(vi) Growth opportunities

Growth opportunities is a market measurement of firm performance (Lim and Yen 2011; Cheng and Firth 2006). Extant studies which premise on agency theory document that remuneration payout should be linked to the company's growth opportunities, which add value for the shareholders. (Smith and Watts 1992; Conyon, Core and Guay 2011; Croci, Gonenc and Ozkan 2012; Fernandes et al. 2013). They show that the companies with a higher growth opportunities reward their executive directors with higher levels of remuneration. Therefore, growth opportunities, measured by the ratio of market value to book value of equity (Abdul-Wahab and Abdul-Rahman 2009; Croci, Gonenc and Ozkan 2012), is included as a control variable in this study.

Table 4.2 summarises the measurements of the dependent variable, independent variables and control variables, as well as the hypothesised direction of each independent variable and expected direction of each control variable.

Table 4.2: Measurements of variables

	Variables	**Measurements**	
Dependent variable			
	Executive remuneration (*LNEXREM*)	Natural logarithm of total remuneration received by executive directors (exclude share option)	
Independent Variables			**Hypothesised Association**
1.	Family directors on board (*FD*)	Proportion of family directors on board	Positive
2.	Family CEO (*FCEO*)	0 = CEO is non-family director 1 = CEO is a family director	Positive
3.	Board independence (*ID*)	Proportion of independent non-executive on board	Negative
4.	Tenure of independent non-executive directors (*IDT*)	Average tenure of independent non-executive directors on board	Positive
5.	CEO-chairman role duality (*RD*)	0 = Different individuals hold board chairman and CEO positions 1 = Same individual holds both board chairman and CEO positions	Positive
6.	Remuneration committee (*IDRC*)	Proportion of independent non-executive directors on remuneration committee	Negative
7.	Domestic institutional shareholdings (*DIS*)	Percentage shareholdings of domestic institutional investors	Negative
8.	Foreign institutional shareholdings (*FIS*)	Percentage shareholdings of foreign institutional investors	Negative
9.	Revised MCCG 2012 (*YEAR*)	0 = 2010, 2011 and 2012 1 = 2013 and 2014 ** *This variable is included in the panel regression model only***	Negative

Control Variables			Expected Association
1.	Family ownership (*FO*)	Percentage shareholdings of family	Positive
2.	Board size (*BS*)	Total number of directors on board	Positive
3.	Firm size (*LNTA*)	Natural logarithm of total assets	Positive
4.	Firm leverage (*LEV*)	Ratio of total debts to total assets	Negative
5.	Lagged firm performance (*ROA(-1)*)	Ratio of lagged net income to total assets	Positive
6.	Growth opportunities (*MV*)	Ratio of market value to book value of equity	Positive

4.6 Models Specification

The first multivariate model is constructed to examine the cross-sectional association between executive remuneration and explanatory variables. For each-year observations, estimates of the regression equation is as follows:

$$LNEXREM_x = \beta_0 + \beta_1 FD_{x1} + \beta_2 FCEO_{x2} + \beta_3 ID_{x3} + \beta_4 IDT_{x4} + \beta_5 RD_{x5} + \beta_6 IDRC_{x6} + \beta_7 DIS_{x7} + \beta_8 FIS_{x8} + \beta_9 FO_{x9} + \beta_{10} BS_{x10} + \beta_{11} LNTA_{x11} + \beta_{12} LEV_{x12} + \beta_{13} ROA(-1)_{x13} + \beta_{14} MV_{x14} + \varepsilon_x$$

In order to examine the influence of family participation on board, corporate governance mechanisms, institutional ownership, revised MCCG 2012, and control variables on the executive remuneration of listed family companies in Malaysia over the five-year period from 2010 to 2014, this study uses the following panel regression:

$$LNEXREM_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FCEO_{it} + \beta_3 ID_{it} + \beta_4 IDT_{it} + \beta_5 RD_{itt} + \beta_6 IDRC_{it} + \beta_7 DIS_{it} + \beta_8 FIS_{it} + \beta_9 YEAR_{it} + \beta_{10} FO_{it} + \beta_{11} BS_{it} + \beta_{12} LNTA_{it} + \beta_{13} LEV_{it} + \beta_{14} ROA(-1)_{it} + \beta_{15} MV_{it} + + \varepsilon_{it}$$

where

β	=	estimated coefficient for each variable
LNEXREM	=	natural logarithm of total remuneration received by executive directors
FD	=	proportion of family directors on board
FCEO	=	family CEO
ID	=	proportion of independent non-executive directors on board
IDT	=	average tenure of independent non-executive directors
RD	=	CEO-chairman role duality
IDRC	=	proportion of independent non-executive directors on the remuneration committee
DIS	=	percentage shareholdings of domestic institutional investors
FIS	=	percentage shareholdings of foreign institutional investors
YEAR	=	year dummy (proxy for the revised MCCG 2012)
FO	=	percentage shareholdings of family
BS	=	total number of directors on board (proxy for board size)
LNTA	=	natural logarithm of total assets (proxy for firm size)
LEV	=	ratio of total debts to total assets (proxy for firm leverage)
ROA(-1)	=	ratio of lagged net income to total assets (proxy for firm accounting performance)
MV	=	ratio of market value to book value of equity (proxy for firm market performance and growth opportunities)
ε	=	error term

The aforementioned regression models are designed to test the hypotheses stipulated in Chapter Three.

4.7 Statistical Analysis

This thesis utilises several statistical techniques to test the research proposition and hypotheses. In Chapter 5, descriptive statistics provide information about the mean, median, standard deviation, minimum, and maximum values of the variables included in this study. Tests of the mean values of executive remuneration between reporting periods are conducted to evaluate of the change in the extent of executive remuneration over the five-year period. A correlation matrix provides information on the associations between dependent, independent, and control variables, and assesses the potential multicollinearity issue. Ordinary Least Square (OLS) multiple regression model is used to test the statistical significance of the association between the dependent and independent variables. Control variables are included to control for any variations. The statistical techniques conducted to test the hypotheses are briefly explained below.

4.7.1 Descriptive Statistics

Descriptive statistics are used to describe the basic characteristics of the data. In particular, the descriptive statistics provide a general understanding of the executive remuneration, family participation on board, corporate governance mechanisms, institutional ownership, and some firm attributes of Malaysian listed family companies.

4.7.2 Spearman's Rank Correlation Analysis

Correlation analysis is used to describe the strength and direction of the linear relationship between two variables. Spearman's rank correlation coefficient is a statistical measure of the strength of a monotonic relationship between paired data. When data is not normally distributed or when the presence of outliers gives a distorted picture of the association between two random variables, the Spearman's rank correlation can be used instead of the Pearson's correlation (Laerd Statistics 2017).

Spearman's rank correlation is a non-parametric test that can be used in many cases when the assumptions of Pearson's correlation are not met, such as continuous-level variables, linearity, heteroscedasticity, and normality. Compared to Pearson's correlation, the Spearman's rank correlation does not require continuous-level data (interval or ratio), because it uses ranks instead of the assumptions about distributions of the two variables. Moreover, it is not very sensitive to outliers so the presence of these data points will not invalidate the results from running a Spearman's correlation (Laerd Statistics 2017).

4.7.3 Paired T-Test and One-Way Repeated Measures ANOVA

Paired t-tests are conducted to examine whether the mean values of executive remuneration differ significantly between a two-year period, which are: 2010 and 2011, 2011 and 2012, 2012 and 2013, and 2013 and 2014.

One-way repeated measures analysis of variance (ANOVA), or known as within-subjects ANOVA[36], is used to compare the mean values of three or more groups where

[36] In the repeated measure ANOVA, there are three potential sources of variability: (i) variance between treatments, (ii) variance within subjects, and (iii) variance expected by chance/ error. The logic of repeated one-way repeated measures ANOVA is that, any differences found between treatments can be explained by only two factors: (i) treatment effect and (ii) error or chance. This formula leaves only

the subjects in each group are the same. It involves repeated measures and comparisons of the same subjects over time. One-way repeated measures design control for individual differences by comparing the scores of a subject in one period with the scores of the same subject in other periods. (Lane 2015). It is conducted in this study to investigate whether there is a significant increase in executive remuneration over the five-year period from 2010 to 2014. This technique facilitates the assessment of the extent of executive remuneration of listed family companies in Malaysia over time.

4.7.4 Detecting Outliers and Influential Points

Detecting outliers and influential points is one of the most essential statistical diagnostics for ordinary least squares (OLS) regression model. Outliers are the observations with unique combinations of characteristics identified as distinctly different from other observations (Hair et al. 2010). In the face of a heavy-tailed (outlier-prone) error distribution, a predicted regression line tends to track more closely to outlying observations, fitting them at the expense of the rest of the sample data in order to minimise the sum of squared errors. Consequently, the estimated results are likely to lead to making incorrect inferences about the data. In short, outliers can have a serious effect on coefficient estimates (Belsley, Kuh and Welsh 1980; Gujarati 2003; Hamilton 2004; Hair et al. 2010; Brooks 2014).

To identify the influential points, statistical test based on Cooks' Distance is conducted. Tabachnick and Fidell (2007) define influential points as those with Cooks' Distance above 1. Besides, the graph of leverage-versus-residual-squared is inspected to detect the presence of outliers and any influential points. Any outliers detected are traced back to the original source of data to ensure that the data is accurate. If the outliers are

differences due to treatment/observation effects. A large F value indicates the differences between treatments/observations are greater than would be expected by chance or error alone (Khelifa 2016). There are five assumptions that underlie the one-way repeated measures ANOVA (Laerd Statistics 2016). If the assumption of sphericity is violated, there are three correction factors to choose from, namely Huynh-Feldt, Greenhouse-Geisser, and Box's conservative, so the result from the one-way repeated measures ANOVA is still valid.

found to be influential where the Cooks' Distance is above 1, the outliers will be removed from the data as they can lead to erroneous estimates in regression models.

4.7.5 Assumptions of OLS Multiple Regression Model

Before conducting the ordinary least squares (OLS) multiple regression model, the underlying assumptions are checked, which are the normality of residuals, linearity, homoscedasticity, and multicollinearity (Hair et al. 2010).

(i) Normality of Residuals

Multiple regression model requires the assumption of normally distributed errors or residuals. Residuals, or sometimes referred to as errors, are the difference between the observed value and the predicted value of dependent variable (Pallant 2011). In this study, the normality of residuals is checked by inspecting the normal probability plot (PP) of residuals (Gujarati and Porter 2010; Pallant 2011) and statistical test based on Shapiro Wilk test.

(ii) Linearity

The residuals should have a straight line relationship with the predicted dependent variable scores (Pallant 2011). According to Hair et al. (1998), linearity can be examined using a residual plot. This study tests the linearity assumption using the scatterplot of standardised predicted value against the standardised residuals (Williams, Grajales and Kurkiewicz 2013).

(iii) Homoscedasticity

Another important assumption of a multiple regression model is homoscedasticity, in which the variance of regression residuals is constant. When this assumption is violated, the residuals are heteroscedastic; a condition of heteroscedasticity exists (Gujarati and Porter 2010). The homoscedasticity assumption implies that the variance of the residuals is unrelated to any single predictor or any linear combination of the predictor variables (Hayes and Cai 2007). Gujarati and Porter (2010) posit that in the presence of heteroscedasticity, the usual hypothesis-testing routine is not reliable, giving rise to the possibility of drawing misleading conclusions. The scatterplot of

standardised predicted value against the standardised residuals is used to assess the assumption of homoscedasticity (Osborne and Waters 2002; Hayes and Cai 2007).

(iv) Multicollinearity

According to Gujarati and Porter (2010), one of the assumptions of the linear regression model is no perfect multicollinearity. In other words, there is no exact linear relationships among the independent variables included in a multiple regression model. Multicollinearity can cause large variances and standard errors of OLS estimators, insignificant *t* ratios, high R^2 value but few significant *t* ratios and wrong signs for regression coefficients (Gujarati and Porter 2010). Multicollinearity can be detected using correlation coefficient. Multicollinearity exists if the correlation coefficient exceeds 0.8 (Gujarati 1995; Hair et al. 1998). This study examines multicollinearity by inspecting the Spearman correlation matrix. Moreover, this study also assesses the variance inflation factor (VIF) and tolerance of each variable to investigate the multicollinearity (Gujarati and Porter 2010). Multicollinearity exists if the VIF is above 10 or the tolerance is below 0.1 (Pallant 2011).

4.7.6 Multiple Regression Model

Ordinary Least Square (OLS) regression analysis is used to test the statistical significance of the association between the dependent and independent variables. There are two main multiple regression models in this study: (i) multiple regression model for each period, 2010 to 2014; and (ii) panel regression model which pools the data from 2010 to 2014, as shown in section 4.6. Multiple regression analysis is the most appropriate analysis method when the research problem involves a single metric dependent variable, which is presumed to be related to two or more metric independent variables. Non-metric variables can be included in regression analysis by creating dummy variables (Hair et al. 2010). The multiple regression model is used to explore and analyse the relationship between a single dependent variable and several independent variables (Hair et al. 2010; Pallant 2011). Its basic formula is

$$y_1 = x_1 + x_2 + x_3 + \ldots + x_4$$

Hair et al. (2007) define OLS as a relatively simple mathematical technique that makes sure the straight line will best represent the relationship between the multiple independent variables and the single dependent variable.

Longitudinal analysis is employed to examine the panel data. Panel data refers to the pooling of observations on a cross-section of households, countries, companies, etc., over several time periods. Hsiao (2014) indicates that the pooling of data could provide more accurate predictions of individual outcomes than generating predictions using the data on the individual in question if individual behaviours are similar conditional on certain variables. When the data on individual history are limited, panel data could provide the possibility of learning an individual's behaviour by observing the behaviour of others. As such, this study pools the observations of 279 listed family companies over the five-year period from 2010 to 2014. The panel regression model is shown in section 4.6.

Three tests are conducted to choose the most efficient estimator for panel data analysis, which are F test, Breusch-Pagan Lagrange Multiplier test, and Hausman specific test. Specifically, F test evaluates the presence of individual specific effects; Breusch-Pagan Lagrange Multiplier test is to choose between pooled OLS model and random effects model (REM); Hausman specific test is to choose between FEM and REM (Hsiao 2014; Wooldridge 2013; Baltagi 2005). Of importance, the focus of the panel data analysis is how to control the impact of individual specific effects or unobserved heterogeneity to obtain valid inference on the common parameters, β (Hsiao 2014).

Pooled OLS model is simply an OLS technique run on panel data. Hence, it completely ignores all individual specific effects. Hsiao (2014) suggests that F test can be used as the preliminary step to explore the source of variability. According to Baltagi (2005), F test can assess the fixed individual effects. Under its null hypothesis of equality, the efficient estimator is pooled OLS. The rejection of null hypothesis means there is a presence of individual specific effects. The validity of F-tests are based on the assumption that the errors of the equation are independently, identically distributed, and are uncorrelated with the independent variables (Hsiao 2014).

When the presence of individual specific effects is identified, the next question is how to treat them. REM assumes the exogeneity of all independent variables with the individual specific effects, which means the individual specific effects or error terms are uncorrelated with the past, current, and future values of the independent variables. In contrast, FEM allows the endogeneity of independent variables with individual specific effects, which means individual specific effects or error terms are correlated with the independent variables. Thus, it is an 'all' or 'nothing' choice of exogeneity of the independent variables and the individual specific effects (Hsiao 2014; Baltagi 2005; Mundlak 1978).

In addition, REM assumes the differences between companies have some influence on the dependent variable. REM uses generalised least squares (GLS) estimation to identify the possible correlation between the unobserved differences and the error terms. The GLS estimator is a weighted average of the between-group and within-group estimators (Hsiao 2014). On the other hand, the FEM uses the changes in the variables over time to estimate the effects of independent variables on the dependent variable. FEM removes the effect of those time-invariant characteristics and assesses the net effect of the independent variables on the dependent variable. In short, the REM allows the estimation of the coefficients of both time-varying and time-invariant variables; while the FEM only allows the estimation of the coefficients of time-varying variables (Hsiao 2014).

4.7.7 Endogeneity Issue

The concern of the possible endogenous determination of corporate governance structure is addressed in this study. According to Wooldridge (2013), the sources of endogeneity problems include model specification error and simultaneity. The linktest is conducted to examine the model specification (Stata 2017).

Simultaneity arises when one or more of the explanatory variables is jointly determined with the dependent variable, typically through an equilibrium mechanism (Wooldridge 2013). In this study, there could be a possibility that the high level of executive remuneration leads to the changes in institutional ownership; the institutional investors may be dissatisfied with the remuneration arrangement and exit

the companies. Clay (2000) document that if the institutional investors are averse to bad corporate governance practices, their investment preference may be based on the measures of corporate governance. This implies that a higher level of institutional shareholdings may be the effect of good corporate governance, but not the cause. Hartzell and Starks (2003) document that the adoption of certain remuneration structures by companies to attract institutional investors could cause an endogeneity between the executive remuneration and institutional ownership. To examine the possibility of endogeneity, this study adopts the method of Hartzell and Starks (2003) to check whether the lagged executive remuneration would predict subsequent institutional shareholdings.

Listokin (2008) document that there is an absence of corporate governance model that specifies the sources and effects of potential endogeneity problems. Corporate governance literature shows few ways to treat endogeneity problem when the samples respond to corporate governance heterogeneously – e.g., when the corporate governance mechanism affects one company differently than another. The cures for endogeneity include subsample estimates, instrumental variable techniques, and fixed effect model. Nonetheless, valid instruments are very hard to identify, particularly in the corporate governance context (Gompers, Ishii and Metrick 2003).

Different companies will have different needs for different types of governance, thus, what is optimal for one company may not be optimal for another. The differences in governance maximisation may or may not be correlated with other attributes of the company, e.g., the nature of industry sector. For instance, family companies in some industry sectors may prefer CEO-chairman role separation whilst those in another industry sectors may prefer CEO-chairman role duality. In order to address this potential governance choice heterogeneity caused by the industry heterogeneity, panel regression model is run separately for different industry sectors.

Moreover, family companies may differ in their optimal choices of board tenure. Some family companies may prefer to retain the existing independent non-executive directors and let them to accumulate tenure. The observed relationship between average tenure of independent non-executive directors and executive remuneration

arises as a result of optimal board tenure chosen by the family companies, which may vary across companies. The regression result of *IDT* may be generalised by the samples with high and low *IDT*. In order to address this concern, panel regression model is run separately for the subsamples with (i) *IDT* of more than nine years as stipulated by the revised MCCG 2012, and (ii) *IDT* of less than nine years.

4.8 Additional Analyses

Additional analyses are conducted to provide more insights into the factors influencing the executive remuneration of Malaysian listed family companies. The first additional analysis is to run the multiple regression model separately for different industry sectors: properties, construction, trading/services, consumer products, industrial products, and plantation. This could yield insights into whether the influence of family participation on board, corporate governance mechanisms, and institutional ownership on executive remuneration are the same across different industry sectors.

The second additional analysis entails the segregation of sample into two subsample sets: (i) companies with family CEO, and (ii) companies with non-family CEO. This is to examine the efficacy of corporate governance mechanisms and institutional ownership when the management is led by family CEO (or non-family CEO). It is ambiguous whether the governing role of institutional investors would be different when the CEO is related, or not related, to the controlling family shareholders.

During the data collection, it is noted that some family companies do not have institutional ownership. There is a concern; family companies without institutional ownership may generalise or weaken the coefficient results of institutional shareholdings. Thus, the third additional analysis involves running regression model specifically for the family companies having institutional ownership. Besides, this study also investigates the influence of total institutional shareholdings (both domestic and foreign) on the executive remuneration.

The fourth additional analysis involves the segregation of sample according to various levels of family ownership. Lim and Yen (2011) note that for executive ownership levels of less than 23%, a unit increase in ownership will lead to approximately 1.1%

decrease in salary; for the ownership levels of 23% to 76%, a unit increase in ownership will bring approximately 0.8% increase in salary. In light of their study, this study suspects that the family participation on board, corporate governance mechanisms, and institutional ownership may have different influences on executive remuneration at different ranges of family ownership.

The fifth additional analysis segregates the companies into two groups in which the average tenure of independent non-executive directors is (i) less than and equal to nine years as stipulated by the revised MCCG 2012, and (ii) more than nine years. In addition, this study uses alternative measurement to measure the tenure of independent non-executive directors and re-run the panel regression. The main regression measures the tenure using the average tenure of the independent non-executive directors on board. This measurement may suffer from skewness and fail to reflect the board dynamics. For instance, a board of 4 independent directors who each has tenure of ten years will have the same average tenure as a board of 2 independent directors with fifteen years of tenure each and 2 independent directors with five years of tenure each. In order to deal with the limitation of this measurement, additional analysis is conducted using an alternative measurement – the proportion of independent non-executive directors whose tenure exceeded nine years over the total number of independent non-executive directors on board (Liu and Sun 2010).

The sixth additional analysis examines the interaction effects between variables. Downes, Houminer, and Hubbard (1999) contend that institutional investors prefer to invest in the companies with independent board. Aggarwal et al. (2011) document that the changes in institutional ownership over time drive the changes in firm-level governance. This study investigates whether the interaction effects between institutional investors and independent non-executive directors could enhance the governance of executive remuneration. Further, this study also examines whether the interaction effect between family ownership and family directors on board would lead to a higher level of executive remuneration. In essence, this additional analysis could shed light whether the institutional investors and independent non-executive directors could interact well to protect the interests of minority shareholders (mitigate Type II

agency problem); or on the other hand, family shareholders interact with family directors on board to extract higher remuneration (exacerbate Type II agency problem).

The additional analyses outlined above should provide better insights of the hypotheses tested in this study in the unique Malaysian setting over a five-year period.

4.9 Summary

This chapter provides a description of research methodology adopted in this study. Primarily, this study employs quantitative technique to test the hypotheses. Data is obtained from the companies' annual reports published on the Bursa Malaysia official website and Datastream database. Only PLCs that fulfilled the four criteria form the sample of this study. The study period from 2010 to 2014 is chosen to investigate the influence of the revised MCCG 2012 on executive remuneration of listed family companies in Malaysia. Various statistical techniques are employed, which include descriptive statistics, Spearman's rank correlation, paired t-test, one-way repeated measures ANOVA, and multiple regression model. The underlying assumptions of multiple regression model are tested before running the model. The following two chapters present the descriptive statistics of variables and the statistical results from the testing of hypotheses.

CHAPTER FIVE: DESCRIPTIVE STATISTICS

5.0 Introduction

This chapter presents the descriptive statistics for all variables included in this study. The analysis aims to study the characteristics of the sample listed family companies in Malaysia, in particular, provides a general understanding of executive remuneration, family participation on board, corporate governance mechanisms, institutional ownership, and firm characteristics.

This chapter is organised as follows: section 5.1 discusses the descriptive statistics of executive remuneration; sections 5.2, 5.3 and 5.4 report the descriptive statistics of family participation on board, corporate governance mechanisms, and institutional ownership, respectively; section 5.5 presents the descriptive statistics of control variables; and section 5.6 analyses the Spearman's rank correlations between the variables and checks for the presence of multicollinearity.

5.1 Executive Remuneration

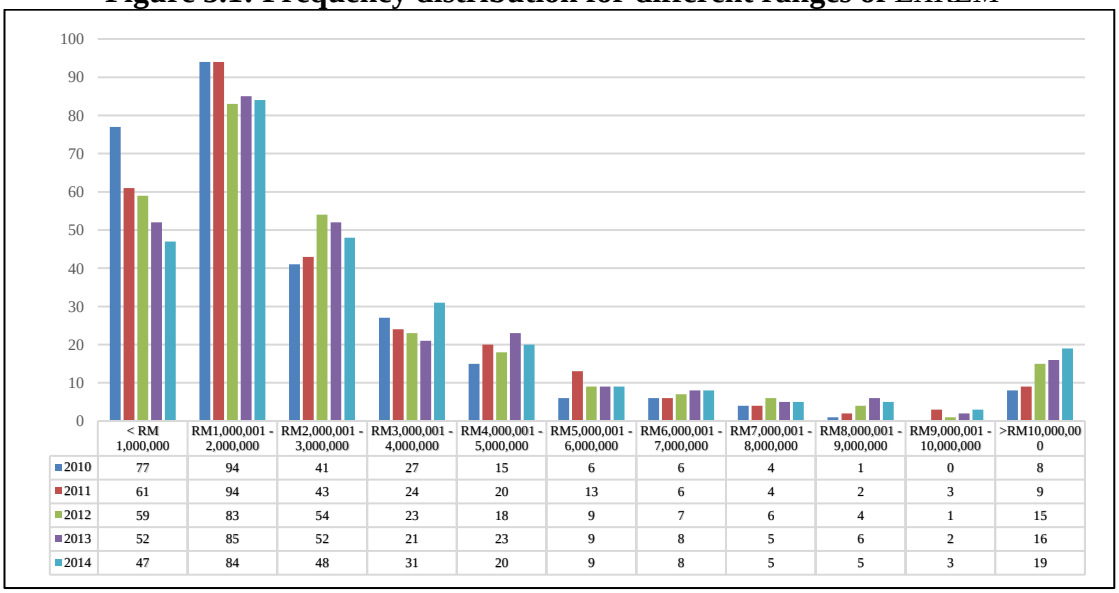
This section discusses the univariate descriptive statistics relating to executive remuneration (*EXREM*) of 279 sample family companies over the five-year period from 2010 to 2014. This analysis includes the frequency distribution of Malaysian listed family companies for different ranges of *EXREM*, descriptive statistics and percentile distribution. Paired t-test and one-way repeated measures ANOVA are conducted to examine whether the increase in mean *EXREM* over the study period is significant. The *EXREM* is composed of salaries/fees, bonuses, allowances, and other benefits[37]. As well, this section presents the composition of each component of *EXREM* and the changes over the five-year period. Further, this section reports that the *EXREM* varies for different industry sectors, specifically properties, industrial products, construction, consumer products, trading/services, and plantation.

Figure 5.1 depicts the frequency distribution of Malaysian listed family companies for different ranges of *EXREM* over the five-year period. As illustrated, about 30.00% of

[37] Other benefits include meeting allowances, pension funds, incentives, benefits in kind, and ex-gratia.

the sample family companies pay between RM1,000,000 and RM2,000,000. The number of family companies remunerating their executive directors more than RM10,000,000 has increased from 8 companies (2.87% of sample companies) in 2010 to 19 companies (6.81% of sample companies) in 2014. On the other hand, the number of family companies paying executive remuneration of less than RM1,000,000 has decreased over the five-year period, from 77 companies (27.60% of sample companies) in 2010 to 47 companies (16.85% of sample companies) in 2014.

Figure 5.1: Frequency distribution for different ranges of *EXREM*



	< RM 1,000,000	RM1,000,001 - 2,000,000	RM2,000,001 - 3,000,000	RM3,000,001 - 4,000,000	RM4,000,001 - 5,000,000	RM5,000,001 - 6,000,000	RM6,000,001 - 7,000,000	RM7,000,001 - 8,000,000	RM8,000,001 - 9,000,000	RM9,000,001 - 10,000,000	>RM10,000,000
2010	77	94	41	27	15	6	6	4	1	0	8
2011	61	94	43	24	20	13	6	4	2	3	9
2012	59	83	54	23	18	9	7	6	4	1	15
2013	52	85	52	21	23	9	8	5	6	2	16
2014	47	84	48	31	20	9	8	5	5	3	19

Table 5.1 summarises the descriptive statistic for *EXREM* of 279 sample family companies. The *EXREM* shows an increasing trend over the five-year period. Malaysian listed family companies pay an average executive remuneration of RM2,634,729 in 2010 and an average of RM4,197,305 in 2014, representing a significant increase of 59.31%[38] over the five-year period.

[38] Calculation: RM4,197,305 (in 2014) minus RM2,634,729 (in 2010), then dividend by RM2,634,729 (in 2010). The one-way repeated measure ANOVA, as shown in Table 5.2, report that the increase is statistically significant.

Table 5.1 Descriptive statistic for *EXREM*

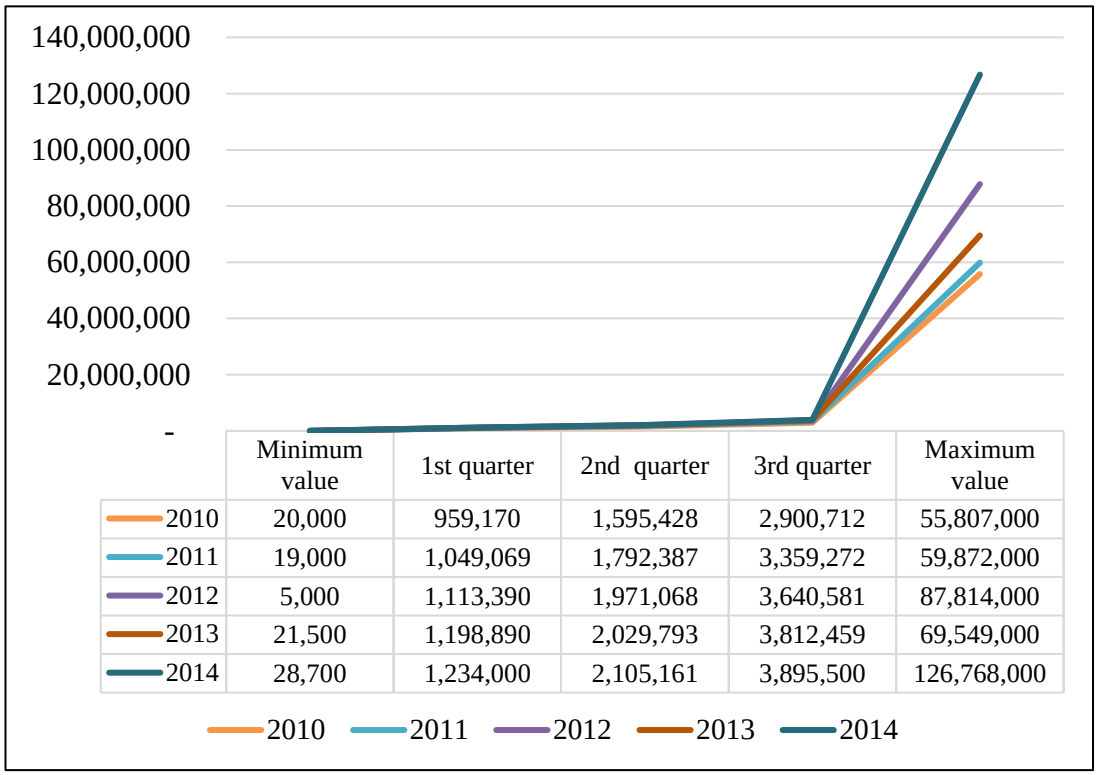
Period	Mean	Median	Std. Dev.	Min.	Max.
2010	2,634,729	1,595,428	4,457,529	20,000	55,807,000
2011	3,034,317	1,792,387	5,344,227	19,000	59,872,000
2012	3,464,478	1,971,068	6,883,148	5,000	58,646,000
2013	3,732,510	2,029,793	6,868,993	21,500	69,549,000
2014	4,197,305	2,105,161	9,427,528	28,700	126,768,000
2010-2014	**3,412,668**	**1,898,767**	**6,596,285**	**5,000**	**126,768,000**

The mean value of *EXREM* over the five-year period is RM3,412,668, ranging from RM5,000 in 2012 to RM126,768,000 in 2014. This indicates a huge disparity of *EXREM* among Malaysian listed family companies. This finding is higher than the mean values reported by prior studies, which include both family and non-family companies in their sample sets. Abdul-Wahab and Abdul-Rahman (2009), Lim and Yen (2011), and Jaafar, Abdul-Wahab, and James (2012) report the mean values of RM1,570,000,000, RM2,570,000, and RM1,850,000 with the maximum values of RM66,740,000, RM101,000,000, and RM69,620,000, respectively. The findings of this study show that executive directors in Malaysian listed family companies receive comparatively higher remuneration than the overall companies.

Figure 5.2 displays the percentile distribution of *EXREM*, which yields more information about the range of *EXREM* for each year. As shown in Figure 5.2, there is a huge gap (more than 4000.00%) between the minimum value and the 1st quarter of *EXREM* for each year. This indicates that some family companies pay relatively low to their executive directors. Moreover, every year the *EXREM* increases drastically after 3rd quarter of percentile, particularly in 2014 where it escalates from a 7-digit figure to 9-digit figure.

Table 5.2 shows the results of paired t-tests and one-way repeated measures ANOVA. Paired t-tests are conducted to examine whether the increase in mean *EXREM* is statistically significant between two periods, in this case: between 2010 and 2011, between 2011 and 2012, between 2012 and 2013, and between 2013 and 2014. One-way repeated measures ANOVA is run to examine whether the increase of mean *EXREM* over the five-year period from 2010 to 2014 is significant or not.

Figure 5.2: Percentile distribution of *EXREM*



	Minimum value	1st quarter	2nd quarter	3rd quarter	Maximum value
2010	20,000	959,170	1,595,428	2,900,712	55,807,000
2011	19,000	1,049,069	1,792,387	3,359,272	59,872,000
2012	5,000	1,113,390	1,971,068	3,640,581	87,814,000
2013	21,500	1,198,890	2,029,793	3,812,459	69,549,000
2014	28,700	1,234,000	2,105,161	3,895,500	126,768,000

Table 5.2: Paired t-tests and one-way repeated measures ANOVA result

	2010	**2011**	**2012**	**2013**	**2014**
Panel A – Paired t-tests					
Observations	279	279	279	279	279
Mean	2,634,729	3,034,319	3,464,478	3,732,510	4,197,305
% change		15.17	14.18	7.74	12.46
Hypothesised mean difference		0	0	0	0
Degree of freedom		278	278	278	278
t-statistic		3.97	3.26	1.32	1.75
p-value		0.00***	0.00***	0.19	0.08*

Panel B - One-way repeated measures ANOVA result (2010 – 2014)	
Observations	1395
% change	59.31
F statistic	14.34
p-value	0.00***
H-F	0.00***
G-G	0.00***
Box	0.00***

Note: ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively.

Panel A of Table 5.2 reports that the increase of mean *EXREM* is statistically significant (p-value < 0.01) between 2010 and 2011, and between 2011 and 2012.

However, the increase of mean *EXREM* between 2012 and 2013 is not statistically significant (p-value > 0.10). This suggests that the revised MCCG 2012 is effective in reining in executive remuneration between 2012 and 2013. The increase of mean *EXREM* between 2013 and 2014 is statistically significant (p-value < 0.10), implying that the revised MCCG 2012 is effective in restraining executive remuneration during the first year of its implementation only. Notwithstanding this, the 0.10 significance level at the 2013-2014 period is weaker than the 0.01 significance level shown in the preceding periods, 2010-2011 and 2011-2012.

Panel B of Table 5.2 shows the result of one-way repeated measures ANOVA. The p-value at 0.00 significance level indicates the increase of mean *EXREM* over the five-year period from 2010 to 2014 is statistically significant. The large F statistic value at 14.34 indicates that the differences between observations are greater than would be expected by chance or error alone. The results of Huynh-Feldt (H-F)[39], Greenhouse-Geisser (G-G), and Box's conservative validate the result is statistically significant as their p-values are less than 0.01.

The executive remuneration comprises salaries/fees, bonuses, allowances, and other benefits. Figure 5.3 shows the composition of each component: salaries/fees account for 62.23%, bonuses account for 19.80%, allowances and other benefits account for 17.96%.

[39] Huynh-Feldt (H-F), Greenhouse-Geisser (G-G), and Box's conservative correct the violation of sphericity. Sphericity (one of the assumptions of one-way repeated measures ANOVA) means the variances of the differences between all combinations of related groups are equal (Laerd Statistics 2016). Their results are shown in Appendix 5.1

Figure 5.3: Components of *EXREM*

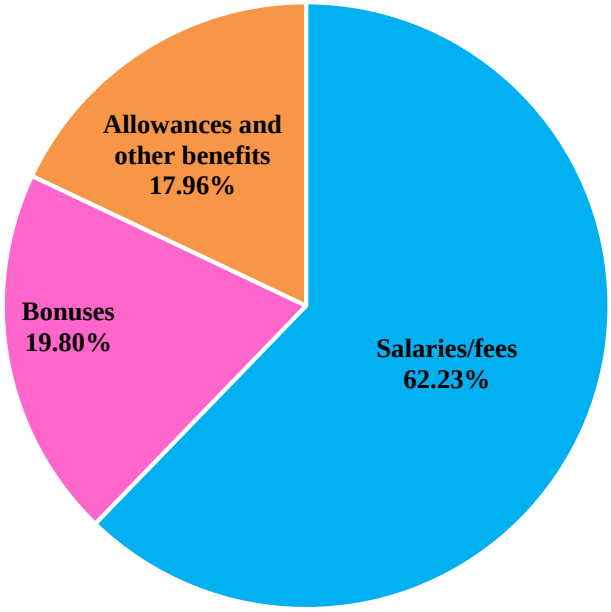
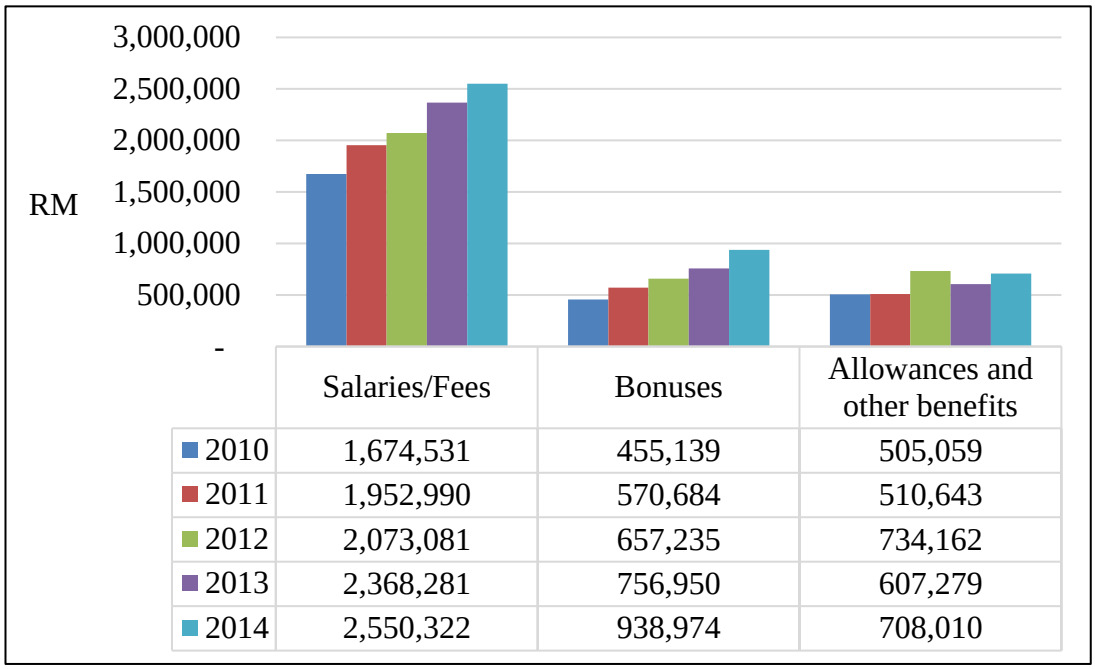


Figure 5.4 presents the average of the components of *EXREM* from 2010 to 2014. Each component of *EXREM* has experienced continuous increase over the five-year period, except for a decrease of 20.89% in allowances and other benefits from RM734,162 in 2012 to RM607,279 in 2013. Table 5.3 shows the percentage change of the components of *EXREM* for each of the study periods. The bonuses increase by 51.53% from RM455,139 in 2010 to RM938,974 in 2014, which is comparatively higher than the increases in salaries/fees (34.34%), and allowances and other benefits (28.66%). By using the study period from 1999 to 2003, Abdul-Wahab and Abdul-Rahman (2009) show that the mean bonuses of overall Malaysian listed companies is RM140,000. The findings of this study reveal that the average bonuses paid to executive directors in listed family companies is substantially higher than of the overall companies in Malaysia; and has increased over time.

Figure 5.4: Average of the components of *EXREM* from 2010 to 2014



	Salaries/Fees	Bonuses	Allowances and other benefits
2010	1,674,531	455,139	505,059
2011	1,952,990	570,684	510,643
2012	2,073,081	657,235	734,162
2013	2,368,281	756,950	607,279
2014	2,550,322	938,974	708,010

Table 5.3: Percentage change of the components of *EXREM*

Period	Salaries/ Fees	Bonuses	Allowances and other benefits
2010 - 2011	14.26%	20.25%	1.09%
2011 - 2012	5.79%	13.17%	30.45%
2012 - 2013	12.46%	13.17%	-20.89%
2013 - 2014	7.14%	19.39%	14.23%
2010 - 2014	**34.34%**	**51.53%**	**28.66%**

The average *EXREM* across different industry sectors varies. Figure 5.5 shows the proportion of Malaysian listed family companies according to industry sector. Malaysian listed family companies are mostly involved in industrial products (34.05%), followed by consumer products (21.51%), trading/services (16.85%) and properties (12.90%). The involvement of family companies in construction, plantation, and other sectors[40] are less than 10.00%.

[40] Other sectors include infrastructure projects (1 family company), technology (4 family companies) and hotel (1 family company).

Figure 5.5: Proportion of family companies according to industry sectors

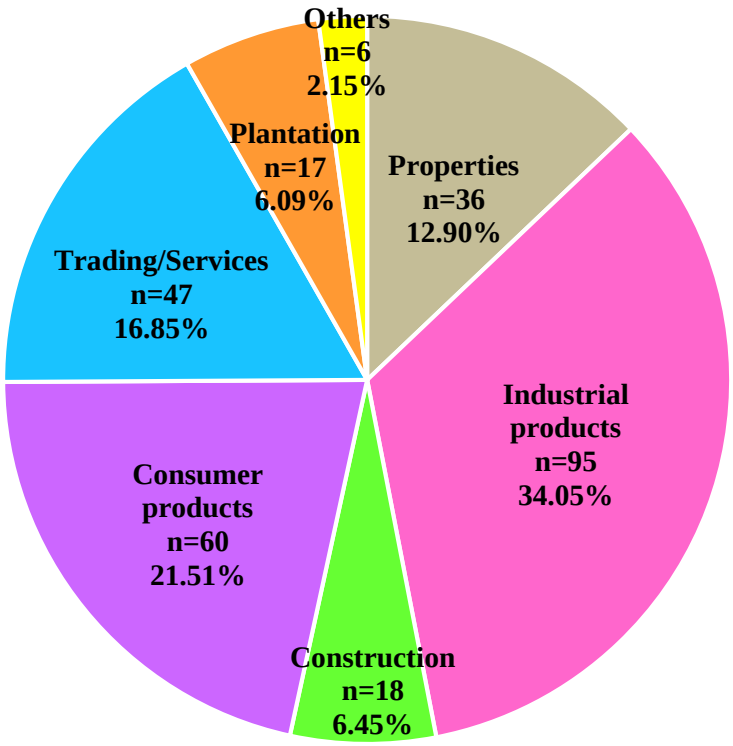


Table 5.4 and Figure 5.6 show the mean *EXREM* for each industry sector[41]. The mean *EXREM* of each industry sector increases over the five-year study period. The mean values of the *EXREM* over the five-year period for the properties (RM4,464,790), construction (RM5,305,430), and plantation (RM7,092,891) sectors are higher than the average RM3,412,668 reported in Table 5.1. On the other hand, the industrial products (RM2,401,455), consumer products (RM2,772,979), trading/services (RM2,812,364) sectors pay lower-than-average *EXREM*.

[41] The mean *exrem* statistic for the other sectors (infrastructure projects, hotel and technology) are not computed as there are only a few sample companies in these sectors.

Table 5.4: Mean *EXREM* for each industry sector

Period	Properties	Industrial products	Construction	Consumer products	Trading/ services	Plantation
2010	2,654,540	1,912,849	3,605,079	2,233,643	2,816,274	5,674,247
2011	3,244,083	2,268,361	4,900,242	2,567,130	2,645,720	6,358,213
2012	4,316,839	2,423,292	5,398,858	2,986,323	2,657,292	6,145,772
2013	5,974,176	2,614,866	6,307,507	2,903,621	2,798,507	6,464,223
2014	6,134,314	2,787,909	6,315,466	3,174,179	3,144,025	10,821,998
2010-2014	**4,464,790**	**2,401,455**	**5,305,430**	**2,772,979**	**2,812,364**	**7,092,891**

Figure 5.6: Mean *EXREM* for each industry sector

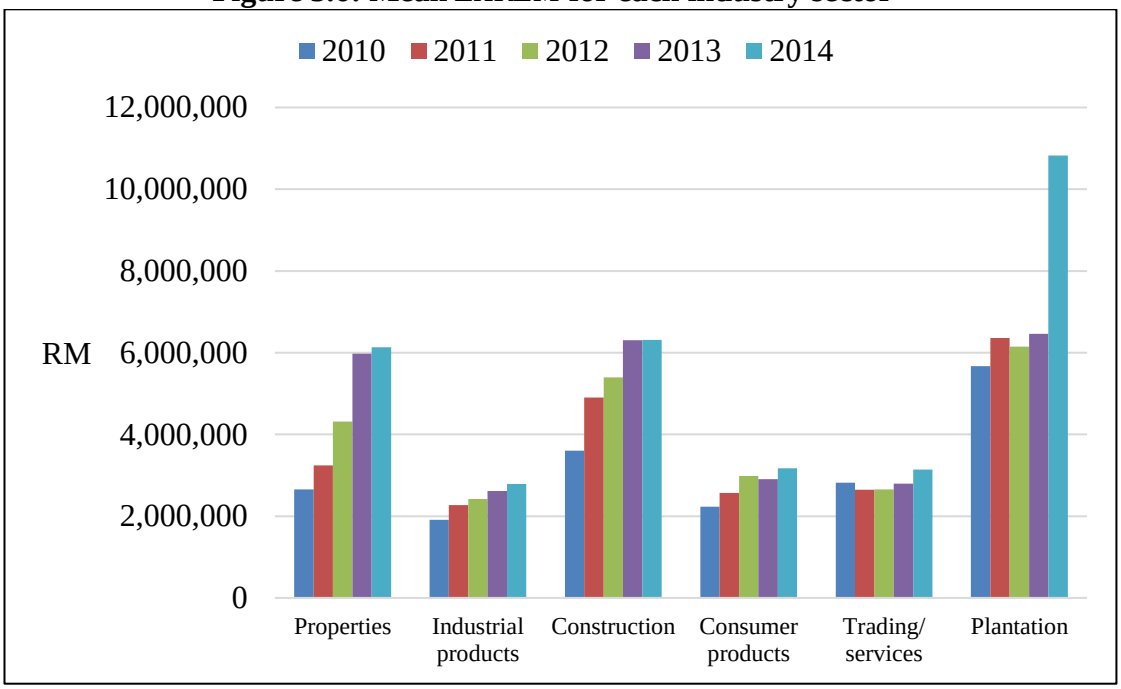
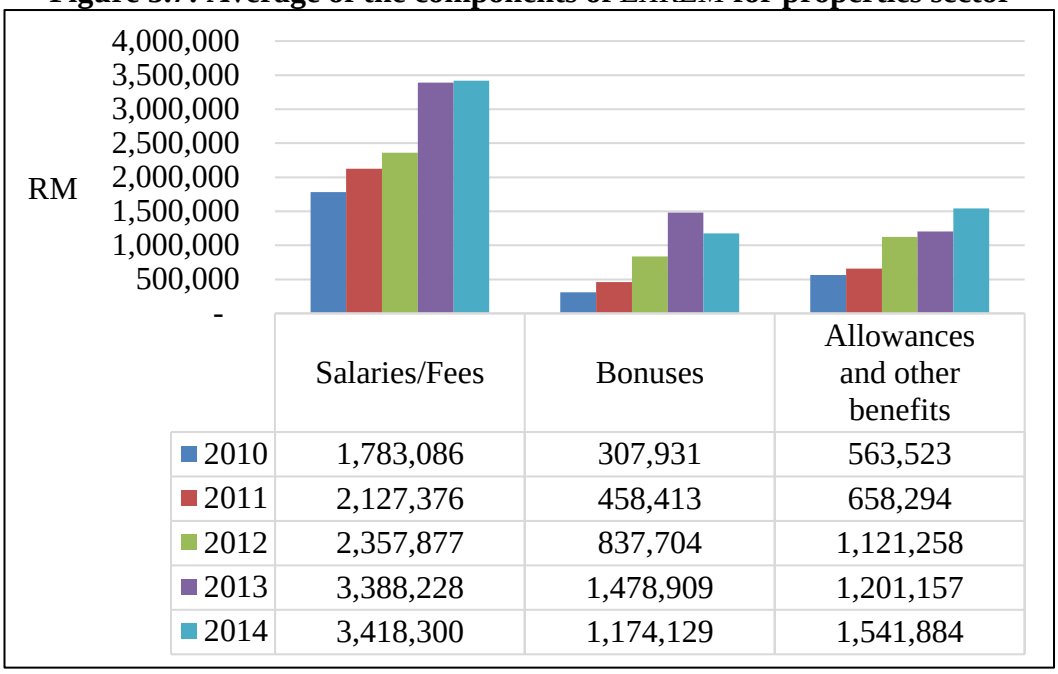


Figure 5.7 to Figure 5.12 present the average of the components of *EXREM* for each industry sector[42] from 2010 to 2014.

[42] The statistic of the average of the components of *exrem* for the other sectors (infrastructure projects, hotel and technology) are not computed as there are only a few sample companies in these sectors.

Figure 5.7 shows the average of the components of *EXREM* for the properties sector from 2010 to 2014. Each component of *EXREM* in the properties sector increases over the five-year period, except a decrease in bonuses by 20.61% from RM1,478,909 in 2013 to RM1,174,129 in 2014.

Figure 5.7: Average of the components of *EXREM* for properties sector



	Salaries/Fees	Bonuses	Allowances and other benefits
2010	1,783,086	307,931	563,523
2011	2,127,376	458,413	658,294
2012	2,357,877	837,704	1,121,258
2013	3,388,228	1,478,909	1,201,157
2014	3,418,300	1,174,129	1,541,884

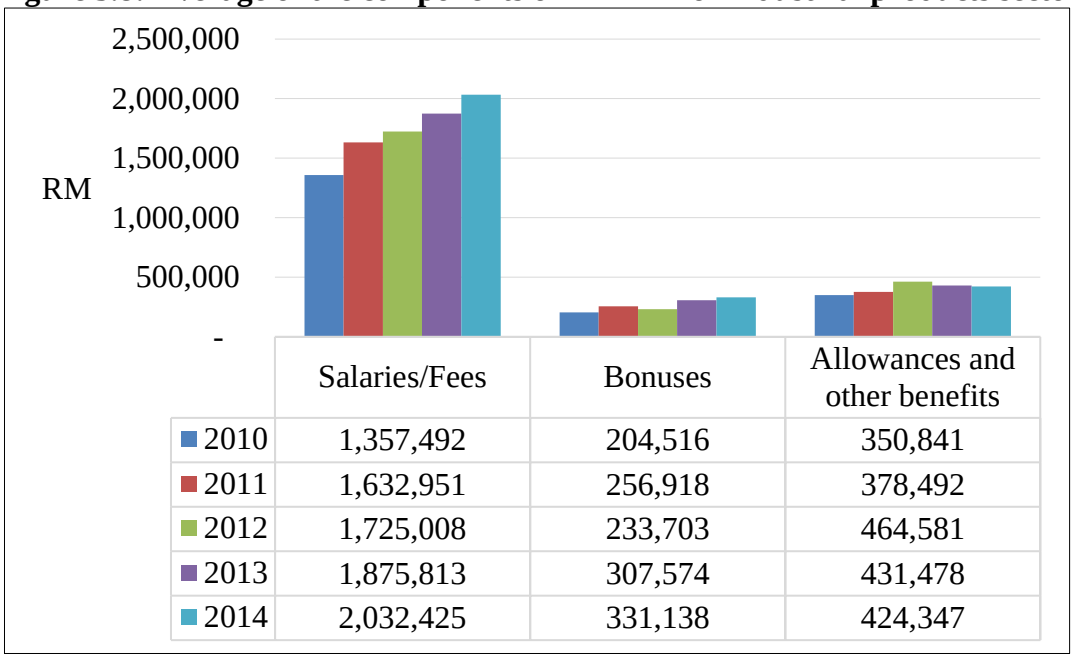
Table 5.5 shows the percentage change of the components of *EXREM* for the properties sector. Over the five-year period, the percentage increase in the average bonuses is the highest (73.77%), followed by the allowances and other benefits (63.45%), and salaries/fees (47.84%).

Table 5.5: Percentage change of the components of *EXREM* for properties sector

Period	Salaries/ Fees	Bonuses	Allowances and other benefits
2010 - 2011	19.31%	48.87%	14.40%
2011 - 2012	10.83%	82.74%	41.29%
2012 - 2013	43.70%	76.54%	6.65%
2013 - 2014	0.89%	-20.61%	22.10%
2010 - 2014	**47.84%**	**73.77%**	**63.45%**

Figure 5.8 shows the average of the components of *EXREM* for the industrial products sector from 2010 to 2014. Each component of *EXREM* in the industrial products sector increases over the five-year period, except for a slight decrease in allowances and other benefits between 2012 and 2013 by 7.13%, and between 2013 and 2014 by 1.65%.

Figure 5.8: Average of the components of *EXREM* for industrial products sector



	Salaries/Fees	Bonuses	Allowances and other benefits
2010	1,357,492	204,516	350,841
2011	1,632,951	256,918	378,492
2012	1,725,008	233,703	464,581
2013	1,875,813	307,574	431,478
2014	2,032,425	331,138	424,347

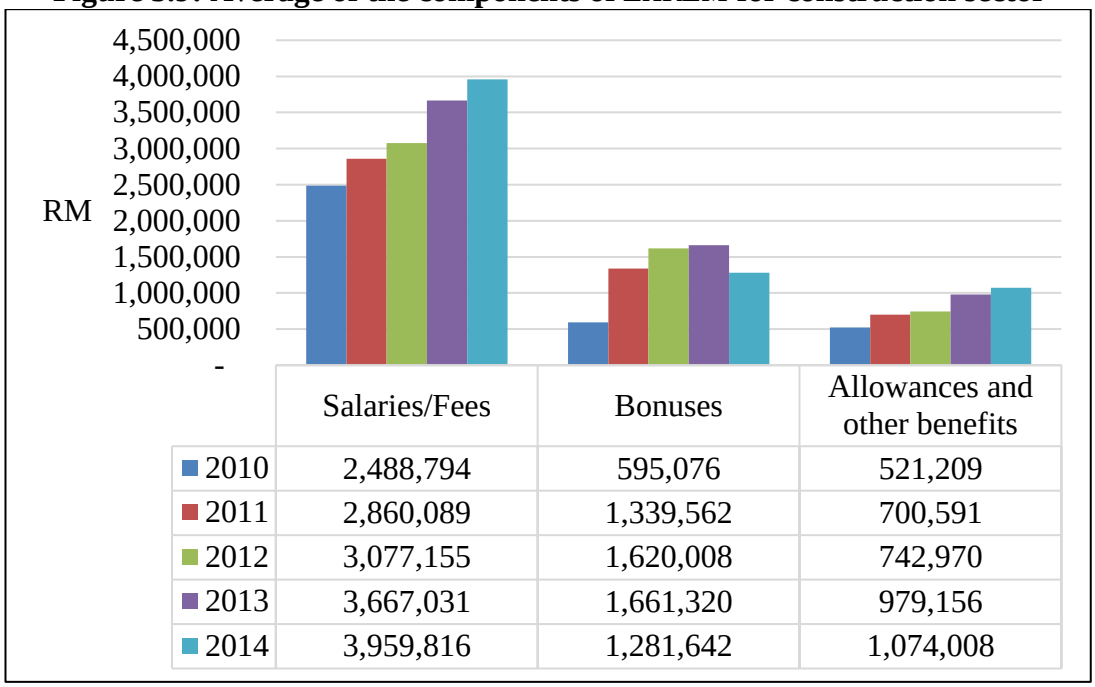
Table 5.6 shows the percentage change of the components of *EXREM* for the industrial products sector. Similar to the properties sector, the percentage increase in the average bonuses (61.91%) over the five-year period is the highest among the other components of *EXREM*.

Table 5.6: Percentage change of the components of *EXREM* for industrial products sector

Period	Salaries/ Fees	Bonuses	Allowances and other benefits
2010 - 2011	20.29%	25.62%	7.88%
2011 - 2012	5.64%	-9.04%	22.75%
2012 - 2013	8.74%	31.61%	-7.13%
2013 - 2014	8.35%	7.66%	-1.65%
2010 - 2014	**49.72%**	**61.91%**	**20.95%**

Figure 5.9 shows the average of the components of *EXREM* for the construction sector from 2010 to 2014.

Figure 5.9: Average of the components of *EXREM* for construction sector



	Salaries/Fees	Bonuses	Allowances and other benefits
2010	2,488,794	595,076	521,209
2011	2,860,089	1,339,562	700,591
2012	3,077,155	1,620,008	742,970
2013	3,667,031	1,661,320	979,156
2014	3,959,816	1,281,642	1,074,008

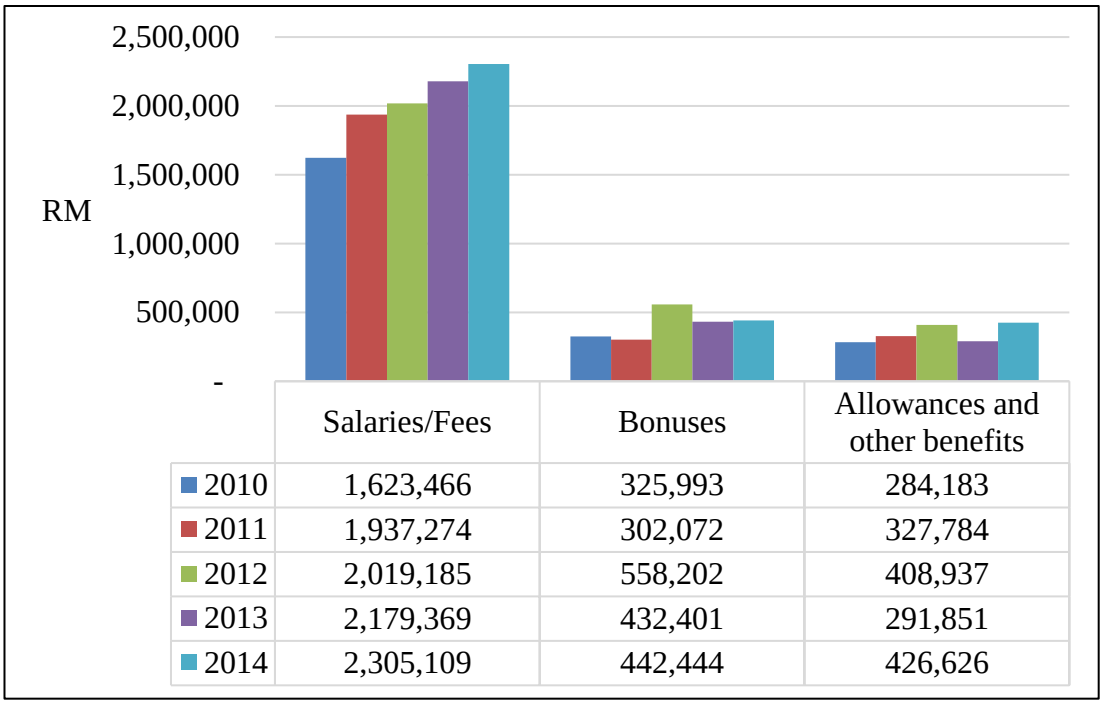
Table 5.7 shows the percentage change of the components of *EXREM* for the construction sector. The percentage increase of each component over the five-year period is more than 50.00%, with the highest percentage increase in bonuses by 115.37% from RM595,076 in 2010 to RM1,281,642 in 2014.

Table 5.7: Percentage change of the components of *EXREM* for construction sector

Period	Salaries/ Fees	Bonuses	Allowances and other benefits
2010 - 2011	14.92%	125.11%	34.42%
2011 - 2012	7.59%	20.94%	6.05%
2012 - 2013	19.17%	2.55%	31.79%
2013 - 2014	7.98%	-22.85%	9.69%
2010 - 2014	**59.11%**	**115.37%**	**106.06%**

Figure 5.10 shows the average of the components of *EXREM* for the consumer products sector from 2010 to 2014.

Figure 5.10: Average of the components of *EXREM* for consumer products sector



	Salaries/Fees	Bonuses	Allowances and other benefits
2010	1,623,466	325,993	284,183
2011	1,937,274	302,072	327,784
2012	2,019,185	558,202	408,937
2013	2,179,369	432,401	291,851
2014	2,305,109	442,444	426,626

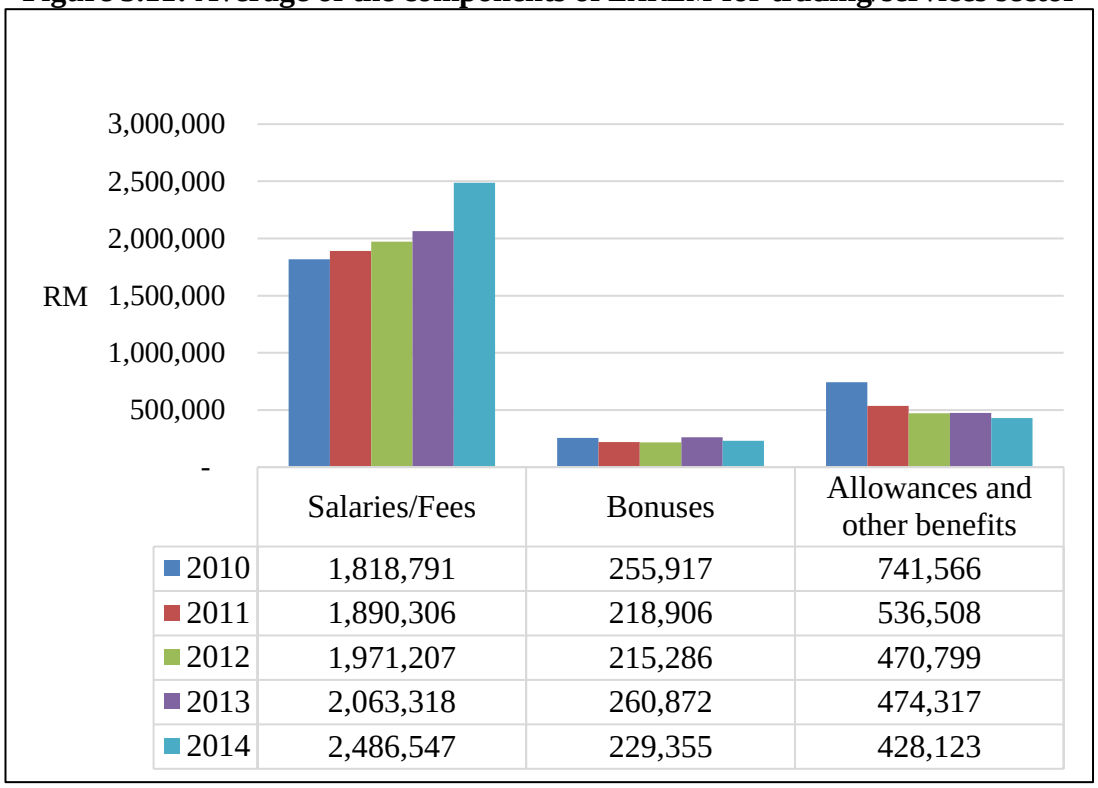
Table 5.8 presents the percentage change of the components of *EXREM* for the consumer products sector. Unlike the other industry sectors, the percentage increase of the average bonuses (35.72%) in the consumer products over the five-year period is the lowest among the other components of *EXREM*. However, the percentage increase in the average bonuses between 2011 and 2012 is 84.79%.

Table 5.8: Percentage change of the components of *EXREM* for consumer products sector

Period	Salaries/ Fees	Bonuses	Allowances and other benefits
2010 - 2011	19.33%	-7.34%	15.34%
2011 - 2012	4.23%	84.79%	24.76%
2012 - 2013	7.93%	-22.54%	-28.63%
2013 - 2014	5.77%	2.32%	46.18%
2010 - 2014	**41.99%**	**35.72%**	**50.12%**

Figure 5.11 shows the average of the components of *EXREM* for the trading/services sector from 2010 to 2014.

Figure 5.11: Average of the components of *EXREM* for trading/services sector



	Salaries/Fees	Bonuses	Allowances and other benefits
2010	1,818,791	255,917	741,566
2011	1,890,306	218,906	536,508
2012	1,971,207	215,286	470,799
2013	2,063,318	260,872	474,317
2014	2,486,547	229,355	428,123

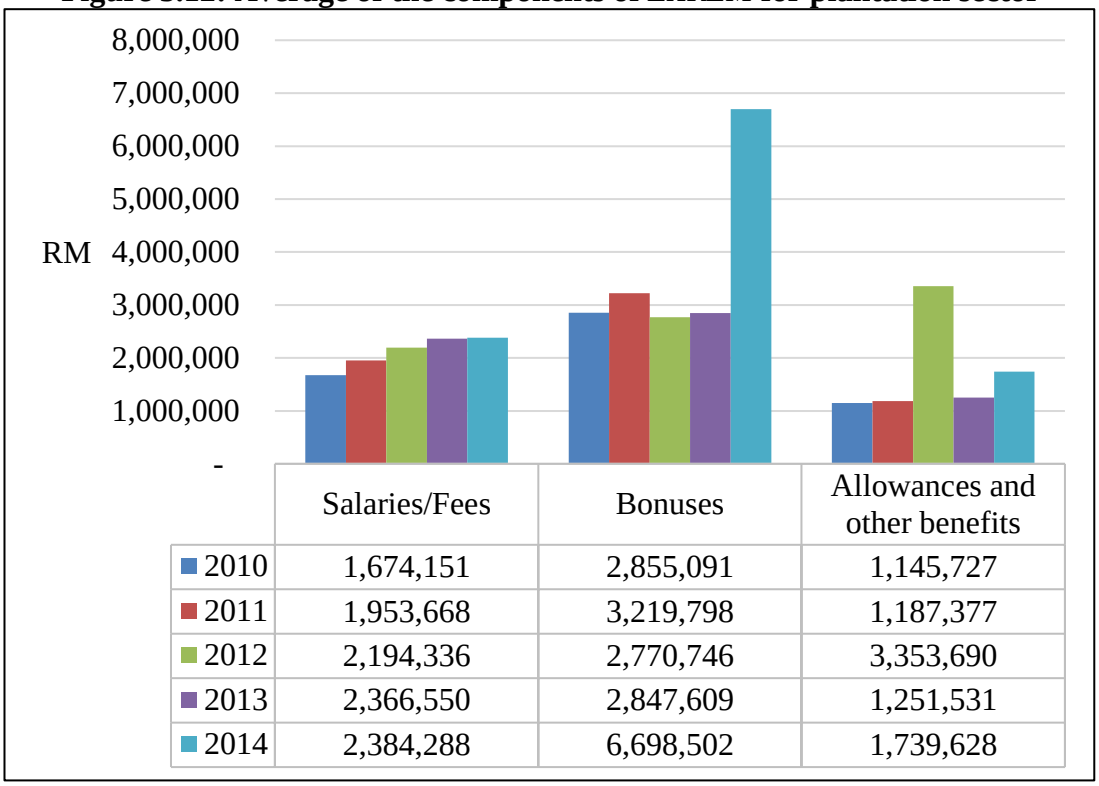
Table 5.9 shows the percentage change of the components of *EXREM* for the trading/services sector. This is the only sector showing a percentage decrease in the average bonuses and average allowances and other benefits over the five-year period. These two components of *EXREM* only experience a percentage increase between 2012 and 2013.

Table 5.9: Percentage change of the components of *EXREM* for trading/services sector

Period	Salaries/ Fees	Bonuses	Allowances and other benefits
2010 - 2011	3.93%	-14.46%	-27.65%
2011 - 2012	4.28%	-1.65%	-12.25%
2012 - 2013	4.67%	21.17%	0.75%
2013 - 2014	20.51%	-12.08%	-9.74%
2010 - 2014	**36.71%**	**-10.38%**	**-42.27%**

Figure 5.12 shows the average of the components of *EXREM* for the plantation sector from 2010 to 2014.

Figure 5.12: Average of the components of *EXREM* for plantation sector



	Salaries/Fees	Bonuses	Allowances and other benefits
2010	1,674,151	2,855,091	1,145,727
2011	1,953,668	3,219,798	1,187,377
2012	2,194,336	2,770,746	3,353,690
2013	2,366,550	2,847,609	1,251,531
2014	2,384,288	6,698,502	1,739,628

Table 5.10 reports the percentage change of the components of *EXREM* for the plantation sector. The 134.62% increase in bonuses is the highest among all the industry sectors. In addition, the average allowances and other benefits in plantation sector show a substantial increase of 182.45% between 2011 and 2012.

Table 5.10: Percentage change of the components of *EXREM* for plantation sector

Period	Salaries/ Fees	Bonuses	Allowances and other benefits
2010 - 2011	16.70%	12.77%	3.64%
2011 - 2012	12.32%	-13.95%	182.45%
2012 - 2013	7.85%	2.77%	-62.68%
2013 - 2014	0.75%	135.23%	39.00%
2010 - 2014	42.42%	134.62%	51.84%

To sum up, the executive remuneration of Malaysian listed family companies, which includes salaries/fees, bonuses, allowances, and other benefits; has increased from 2010 to 2014 across different industry sectors. The significant increase of executive

remuneration in Malaysian listed family companies may be due to the improved firm performance over time, or may signal the possible wealth expropriation by controlling family shareholders via executive remuneration. This is contrary to the research proposition of this study, which is, the executive remuneration of listed family companies in Malaysia is decreasing from 2010 to 2014.

5.2 Family Participation on Board

This section discusses the statistics relating to the participation of the controlling shareholders and their family members on the board of directors. Table 5.11 shows the statistics of family directors on board (*FD*), which includes both executive directors and non-executive directors. Panel A of Table 5.11 shows the frequency distribution of *FD*, whilst panel B presents the descriptive statistics for *FD*. The overall average of *FD* over the five-year period is 40.89%. The highest mean value of *FD* is reported in 2012, 41.15%. In comparison to the average 20.09% for the *FD* in American family companies (Anderson and Reeb 2004), Malaysian family companies have a noticeably higher involvement of controlling shareholders and their families on boards. Thus far, there is limited study reporting the percentage of controlling shareholders and their family members on the board of directors.

Table 5.11: Descriptive statistics for family directors on board

Panel A: Frequency distribution of *FD*

Range	N	%
0% - 9%	1	0.36
10% - 19%	13	4.66
20% - 29%	44	15.77
30% - 39%	75	26.88
40% - 49%	54	19.35
50% - 59%	69	24.73
60% - 69%	20	7.17
70% - 79%	3	1.08
	279	**100.00**

Panel B: Descriptive statistics for *FD*

Period	Mean	Median	Std. Dev.	Min.	Max.
2010	40.68	40.00	13.08	9.09	72.73
2011	41.09	40.00	12.83	9.09	75.00
2012	41.15	40.00	12.56	9.09	71.43
2013	40.91	40.00	12.80	9.09	71.43
2014	40.64	40.00	13.09	9.09	71.43
2010 - 2014	**40.89**	**40.00**	**12.88**	**9.09**	**75.00**

Table 5.12 shows the statistics about the proportion of family executives over the total number of executive directors on corporate board (*FEX*). Panel A of Table 5.12 presents the frequency distribution of *FEX*, whilst panel B summarises the descriptive statistics for *FEX*.

Table 5.12: Descriptive statistics for family executives on board

Panel A: Frequency distribution for *FEX*

Range	N	%
0% - 9%	5	1.79
10% - 19%	0	0.00
20% - 29%	4	1.43
30% - 39%	13	4.66
40% - 49%	8	2.87
50% - 59%	24	8.60
60% - 69%	47	16.85
70% - 79%	24	8.60
80% - 89%	14	5.02
90% - 99%	0	0.00
100%	140	50.18
	279	**100.00**

Panel B: Descriptive statistics for *FEX*

Period	Mean	Median	Std. Dev.	Min.	Max.
2010	79.18	100.00	24.97	0.00	100.00
2011	79.57	88.89	24.40	0.00	100.00
2012	79.29	87.50	24.49	0.00	100.00
2013	78.95	88.89	25.03	0.00	100.00
2014	78.11	85.71	25.21	0.00	100.00
2010 - 2014	**79.02**	**90.20**	**24.83**	**0.00**	**100.00**

Panel A of Table 5.12 shows that the executive director positions in more than 50.00% of sample family companies are all held by the controlling shareholders and their family members. As indicated in Panel B, the overall average of *FEX* over the five-year period is 79.02%. The findings imply that the family businesses in Malaysia are predominantly executed by the controlling shareholders and families, and the executive remuneration is presumed to be largely accounted for family executives.

Table 5.13 reports the frequency distribution of family CEO. A large majority of the sample family companies (about 90.00%) elect family CEO. This finding is higher than 47.70% reported in Indian family companies (Jameson, Prevost and Puthenpurackal 2014) and 44.97% reported in American family companies (Anderson

and Reeb 2003). This suggests that controlling family shareholders and the families of Malaysian listed family companies are more involved in leading the management than their counterparts in developed and other developing countries.

Table 5.13: Frequency distribution of family CEO

Period	No. of companies with family CEO	%	No. of companies without family CEO	%
2010	254	91.04	25	8.96
2011	256	91.76	23	8.24
2012	254	91.04	25	8.96
2013	252	90.32	27	9.68
2014	250	89.61	29	10.39

Based on Table 5.11, Table 5.12, and Table 5.13, the proportions of family directors and family executives on boards as well as the nomination of family CEO slightly decline after 2013. This may be due to the implementation of the revised MCCG in 2012 which emphasises the board independence and further heightens the importance and compliance to the corporate governance best practices.

In summary, the prevalence of controlling shareholders and their family members on corporate boards among Malaysian listed family companies are in accordance with past findings (Demsetz and Lehn 1985; Claessens, Djankov and Lang 2000; Mackie 2001; Lins 2003; Moores and Craig 2008).

5.3 Corporate Governance Mechanisms

This section explains the descriptive statistics of corporate governance mechanisms: (i) board independence; (ii) tenure of independent non-executive directors; (iii) CEO-chairman role duality; and (iv) remuneration committee.

(i) Board Independence

Table 5.14 summarises the descriptive statistic for board independence (*ID*), which is measured by the proportion of independent non-executive directors over the total number of board directors.

Table 5.14: Descriptive statistic for board independence

Period	Mean	Median	Std. Dev.	Min.	Max.
2010	42.03	40.00	10.44	25.00	75.00
2011	42.14	42.86	10.38	23.08	75.00
2012	42.41	42.86	10.55	23.08	75.00
2013	42.65	42.86	10.84	16.67	75.00
2014	43.08	42.86	11.03	16.67	75.00
2010 - 2014	**42.46**	**42.29**	**10.66**	**16.67**	**75.00**

The mean value of *ID* over the five-year period is 42.46%. The mean value of *ID* among Malaysian listed family companies increases from 42.03% in 2010 to 43.08% in 2014. The mean values of *ID* for each period surpasses the threshold of one-third recommended by the MCCG and Bursa Malaysia Listing Requirements, indicating that Malaysian listed family companies go beyond complying with the basic governance requirement. The findings are higher than the mean values reported by Ibrahim, Abdul-Samad, and Amir (2008) who examine the period from 1999 to 2005, and Lim and Yen (2011) who examine the period from 2002 to 2007. The former shows that the proportion of independent non-executive directors on the board are 40.30% and 36.10% for non-family and family companies respectively, whilst the latter reports an average of 40.50%. The increasing mean *ID* over time may be attributed to the introduction of MCCG in year 2000, and its subsequent revisions in 2007 and 2012, with the emphasis on board independence. Notwithstanding the increasing mean *ID*, the minimum *ID* of 16.67% is observed in 2013 and 2014. This indicates there are cases where the family companies do not comply with the requirement of one-third recommended by the MCCG and Bursa Malaysia Listing Requirements. For each of the study periods, the maximum *ID* is 75.00%, indicating that more than half of the boards of some family companies are comprised of outside directors.

The findings of this study pertaining to the composition of corporate boards of family companies show contradiction to prior literature (Husnin, Nawawi and Salin 2016; Leung, Richardson and Jaggi 2014; Croci, Gonenc and Ozkan 2012; Barnett 1960; Anderson and Reeb 2004). Husnin, Nawawi, and Salin (2016), by studying the period from 2006 to 2008, report that Malaysian listed family companies tend to elect family members to the board of directors and management team, inflicting weak governance. Anderson and Reeb (2004) document that the US family companies often seek to

reduce the proportion of independent directors on board. Croci, Gonenc, and Ozkan (2012) report that family companies give fewer board seats to the independent non-executive directors (20.50% of the board) in the context of Continental Europe. Leung, Richardson, and Jaggi (2014) report that the proportion of independent directors in Hong Kong family companies is lower than that in the non-family companies (38.80% versus 40.30%). In contradiction, this study reports that Malaysian listed family companies appoint more independent non-executive directors than family directors to sit on the boards. The mean value of *ID* (42.46%, as reported in Table 5.14) is higher than *FD* (40.89%, as reported in Panel B of Table 5.11). Essentially, these findings refute the argument of Barnett (1960) that controlling family shareholders use a narrow kinship network in making recruiting decisions; they prefer to recruit their own family members to the boards. These findings trigger the curiosity on whose voice is more influential in the determination of executive remuneration. Does this board composition improve the corporate governance of executive remuneration in Malaysian listed family companies? In order to answer this literature gap, the influence of *ID* and *FD* on executive remuneration are investigated using the multiple regression model in the next chapter.

(ii) Tenure of Independent Non-Executive Directors

Table 5.15 presents the descriptive statistics for the tenure of independent non-executive directors. Panel A reports the average tenure of independent non-executive directors on board (*IDT*) while Panel B summarises the descriptive statistics about the proportion of independent non-executive directors whose tenure exceeded 9 years over the total number of independent non-executive directors on board (*IDT#*).

Based on Panel A of Table 5.15, the average tenure of independent non-executive directors over the five-year study period is 8.87 years, with the maximum tenure of 24.67 years. This is higher than the average tenure of 6 years reported by the MSWG for overall Malaysian PLCs (Minority Shareholder Watchdog Group 2015, 2014b, 2013b). Besides, this finding is higher than the average tenure of 7.70 years reported by Li et al. (2013) in the context of American family companies. The *IDT* exceeding nine years is found between 2012 and 2014. This implies the non-compliance to the new governance practice introduced by the revised MCCG 2012, which is, the tenure of independent director should be capped at nine years. The maximum *IDT* for each

period is more than 20.00 years. This suggests that Malaysian listed family companies are reluctant to retire or dismiss the excessively long-tenured independent non-executive directors as they may have built relationship with trust during their time with the company.

Table 5.15: Descriptive statistics for the tenure of independent non-executive directors

Period	Mean	Median	Std. Dev.	Min.	Max.
Panel A: Descriptive statistic for *IDT* (year)					
2010	8.02	8.00	3.70	1.00	21.00
2011	8.58	8.50	3.82	1.00	24.67
2012	9.07	9.00	3.70	1.00	22.00
2013	9.13	8.70	3.98	1.00	23.00
2014	9.53	9.00	4.07	2.00	24.00
2010 – 2014	**8.87**	**8.50**	**3.90**	**1.00**	**24.67**
Panel B: Descriptive statistic for *IDT#* (%)					
2010	35.15	33.33	35.60	0.00	100.00
2011	42.19	33.33	37.71	0.00	100.00
2012	44.77	50.00	36.70	0.00	100.00
2013	47.21	50.00	35.89	0.00	100.00
2014	48.22	50.00	35.25	0.00	100.00
2010 – 2014	**43.51**	**43.33**	**36.56**	**0.00**	**100.00**

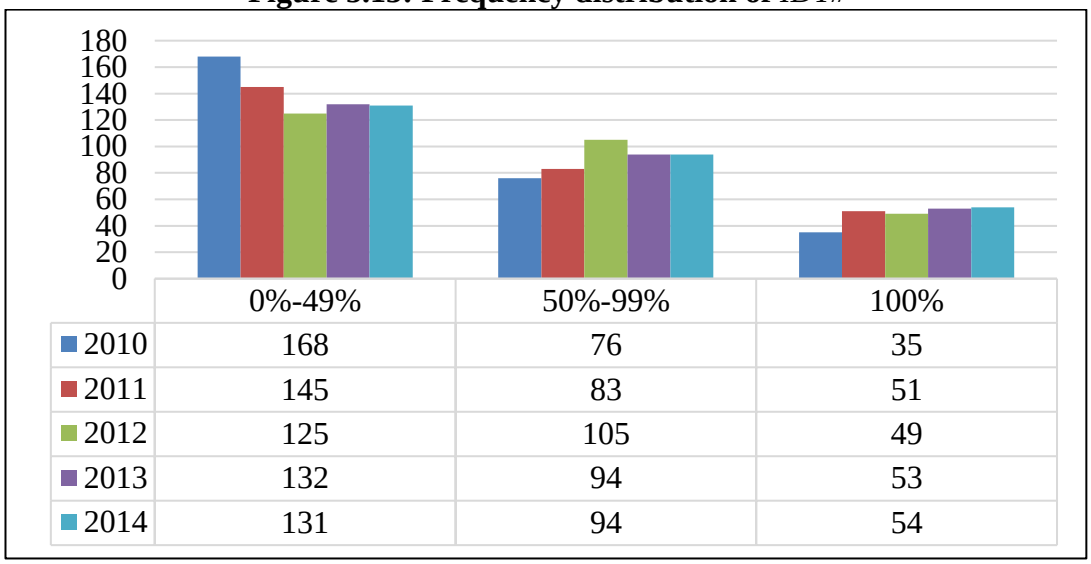
Panel B of Table 5.15 reports the mean value of *IDT#* is 43.51%. The mean values of *IDT#* in the last three years of the study period (47.77% in 2012, 47.21% in 2013, and 48.22% in 2014) are higher than the overall Malaysian PLCs (34.00% in 2012, 38.00% in 2013, and 46.00% in 2014) (Minority Shareholder Watchdog Group 2014b, 2013b)[43]. The minimum value of 0.00% indicates that all of the independent non-executive directors of some family companies serve less than nine years. On the other hand, the maximum value of 100.00% indicates that all of the independent non-executive directors of some family companies serve more than nine years. Figure 5.13 provides more information about the *IDT#*.

Based on Figure 5.13, there is an increasing number of family companies that have at least 50.00% of independent non-executive directors who served more than nine years,

[43] The MSWG starts to use the ASEAN Corporate Governance Scorecard to assess the PLCs in 2012. Hence, there is no Malaysia-ASEAN Corporate Governance Report for 2010 and 2011.

from 39.78%[44] in 2010 to 53.05%[45] in 2014. The number of family companies that have 100% of *IDT#* increases from 35 companies in 2010 to 54 companies in 2014.

Figure 5.13: Frequency distribution of *IDT#*



	0%-49%	50%-99%	100%
2010	168	76	35
2011	145	83	51
2012	125	105	49
2013	132	94	53
2014	131	94	54

These findings are consistent with the findings of authoritative parties. Bursa Malaysia, in its review of corporate governance disclosures of 300 listed companies' annual reports for 2012 and 2013, reports that 55.00% of those companies retain independent non-executive directors beyond nine-year tenure (Mahalingam 2015). Similarly, Minority Shareholder Watchdog Group (2014b) report that 52.58% of Malaysian listed companies have independent non-executive directors who serve more than nine years in the same capacity.

Overall, the findings suggest that the new corporate governance best practice introduced by the revised MCCG 2012, which is, the cumulative tenure of independent non-executive directors should be capped at nine years, has yet to be widely accepted by the Malaysian PLCs including family companies. As such, the findings of this study could be used by future studies to compare this particular corporate governance best practice and examine how long will it take for the Malaysian PLCs to well accept and adopt the nine-year tenure cap.

[44] Calculation: 76 (50%-99%) plus 35 (100%), then divided by 279 sample companies

[45] Calculation: 94 (50%-99%) plus 54 (100%), then divided by 279 sample companies

In addition, this study finds out that 237 out of the 279 sample family companies or approximately 84.95% have independent non-executive directors over the age of 60, which is the minimum retirement age stipulated by the Ministry of Human Resources (2013). The independent non-executive directors in some family companies even reach 86 years old. Moreover, some family companies have two or more independent non-executive directors who are older than 60. 5 out of the 279 sample family companies or 5.38% have all of the independent non-executive directors over the minimum retirement age. These findings imply that Malaysian listed family companies not only tend to retain existing independent non-executive directors and let them to accumulate tenure, they also tend to keep or recruit those who have reached the retirement age. It is questionable whether they are kept or recruited due to their valuable expertise or due to their allegiance to family interests.

On the positive front, long-tenured directors have accumulated greater firm specific knowledge and experience; forcing them to retire might lead to a lack of talent and experience on the board. Lin (2017) postulates that today's 60+ are in much better health than their grandparents are at the same age. He documents that today's 60+ are in fact not 'old', e.g. sick, worn-out, or inactive. They work to improve their financial security and to remain productive longer because they can and want to, not because they have to. Malaysian listed family companies may appreciate the valuable expertise and experience of long-tenured directors and senior citizens, and hence recruit and retain them. On the negative front, family companies are averse to recruit new independent non-executive directors as this may influence the friendly board and affect the existing management style, which is in accordance with the family's interests. It is ambiguous whether the long-tenured independent non-executive directors are willing to monitor and challenge the family directors, particularly concerning their executive remuneration.

(iii) CEO-Chairman Role Duality

Table 5.16 presents the frequency distribution of CEO-chairman role duality from 2010 to 2014. The findings show that more than 75.00% of Malaysian listed family companies separate the roles of board chairman and CEO.

Table 5.16: Frequency distribution of CEO-chairman role duality

Period	Yes	%	No	%
2010	69	24.73	210	75.27
2011	67	24.01	212	75.99
2012	67	24.01	212	75.96
2013	65	23.30	214	76.70
2014	63	22.58	216	77.42

These findings contradict the findings of Voordeckers, Gils, and Heuvel (2007) that CEO-chairman role duality structure is prevalent among Belgian family companies. Rather, these findings are in accordance with the findings of the Minority Shareholder Watchdog Group (2014b) that approximately 78.81% of Malaysian PLCs have separated the roles of board chairman and CEO. In addition, the findings are consistent with past studies showing that CEO-chairman role duality is uncommon in Malaysian companies (Haniffa and Hudaib 2006; Amran and Che-Ahmad 2009; Yatim 2013; Goh, Rasli and Khan 2014). This indicates that the MCCG's recommendation of separating the roles of CEO and board chairman has been widely accepted by Malaysian listed family companies. It has not been mentioned in any past studies whether the two individuals are family-related or not. During the data collection, it is noted that the board chairman and CEO in Malaysian listed family companies are related to each other, i.e. spouse, siblings, parent and children, relatives. This raises doubt whether the board chairman could effectively oversee the CEO, who has family relationship with him/her. The family companies might choose to separate the roles simply to comply with the MCCG or to legitimise their businesses, rather than to improve board governance. The multiple regression model discussed in Chapter Six provides insights into the influence of role duality on executive remuneration.

(iv) Remuneration Committee

The MCCG stipulates that the board should establish remuneration committee, which consists exclusively of or a majority of non-executive directors (Securities Commission Malaysia 2012). Table 5.17 reveals the number of sample family companies that have established remuneration committee from 2010 to 2014. Approximately 95.00% of Malaysian listed family companies have established the remuneration committee as part of their corporate governance mechanisms. This is in accordance with past findings (Yatim 2013; Minority Shareholder Watchdog Group

2014b). Moreover, this is similar to the UK context that more than 90.00% of companies have established the remuneration committee. This indicates that the establishment of remuneration committee recommended by the MCCG, which mimics the Cadbury Committee Report 1992 and Greenbury Committee Report 1995 from the UK, has been widely accepted and adopted by Malaysian listed companies including family companies.

Table 5.17: Frequency distribution for the establishment of remuneration committee

Period	Yes	%	No	%
2010	259	92.83	20	7.17
2011	260	93.19	19	6.81
2012	262	93.91	17	6.09
2013	266	95.34	13	4.66
2014	266	95.34	13	4.66

Table 5.18 shows the composition of remuneration committee.

Table 5.18: Frequency distribution for the composition of remuneration committee

	N	%
Panel A: 100% of remuneration committee are independent non-executive directors		
2010	36	13.90
2011	39	15.00
2012	40	15.27
2013	40	15.04
2014	42	15.79
Panel B: 100% of remuneration committee are family directors		
2010	1	0.37
2011	1	0.38
2012	1	0.38
2013	1	0.38
2014	1	0.38

Note: % is calculated based on the number of sample family companies that have established remuneration committee for respective year.

Panel A of Table 5.18 reports that approximately 15.00% of Malaysian listed family companies have a fully independent remuneration committee. This shows the initiatives of some family companies to comply beyond the basic recommendation of the MCCG - the board should establish remuneration committee which consists of a

majority of non-executive directors. Based on Panel B of Table 5.18, only one sample family company has the remuneration committee composed entirely of family directors.

Essentially, the findings indicate despite a majority of the Malaysian listed family companies complying with the MCCG to establish remuneration committee, the composition of directors varies.

Table 5.19 summarises the descriptive statistics for remuneration committee, where Panel A reports the proportion of independent non-executive directors on remuneration committee (*IDRC*) and Panel B reports the proportion of family directors on remuneration committee (*FDRC*).

Table 5.19: Descriptive statistics for remuneration committee

Period	Mean	Median	Std. Dev.	Min.	Max.
Panel A: Descriptive statistic for *IDRC*					
2010	63.56	66.67	23.64	0.00	100.00
2011	64.90	66.67	23.45	0.00	100.00
2012	65.47	66.67	22.96	0.00	100.00
2013	66.66	66.67	21.52	0.00	100.00
2014	67.46	66.67	21.39	0.00	100.00
2010 – 2014	**65.61**	**66.67**	**22.66**	**0.00**	**100.00**
Panel B: Descriptive statistic for *FDRC*					
2010	22.35	33.33	17.03	0.00	100.00
2011	22.26	33.33	16.99	0.00	100.00
2012	22.12	33.33	16.73	0.00	100.00
2013	22.44	33.33	16.84	0.00	100.00
2014	22.60	33.33	16.82	0.00	100.00
2010 – 2014	**22.36**	**33.33**	**16.89**	**0.00**	**100.00**

Panel A of Table 5.19 reports that the mean value of *IDRC* over the five-year period is 65.61%, whilst Panel B shows that the mean value of *FDRC* over the five-year period is 22.36%. This is consistent with the findings of Lim and Yen (2011) where more than 50.00% of independent non-executive directors sit on the remuneration committee.

Despite the prevalence of independent non-executive directors on remuneration committee in Malaysian listed family companies, their independence role in governing

executive remuneration lacks empirical investigation. There is a genuine concern that the independent non-executive directors may find it difficult to confront the family directors on remuneration committee. In order to address this literature gap, its association with executive remuneration is investigated using the multiple regression model in Chapter Six.

5.4 Institutional Ownership

Table 5.20 presents the descriptive statistic for institutional ownership. Panel A shows the domestic institutional shareholdings (*DIS*) whilst Panel B shows the foreign institutional shareholdings (*FIS*).

Table 5.20: Descriptive statistics for institutional ownership

Period	Mean	Median	Std. Dev.	Min.	Max.
Panel A: Descriptive statistic for *DIS*					
2010	11.59	9.59	10.27	0.00	57.33
2011	11.01	8.65	10.08	0.00	56.84
2012	10.73	8.32	10.16	0.00	56.97
2013	10.72	7.85	10.28	0.00	52.09
2014	10.85	7.62	10.33	0.00	52.41
2010 – 2014	**10.98**	**8.44**	**10.23**	**0.00**	**57.33**
Panel B: Descriptive statistic for *FIS*					
2010	4.09	0.90	6.86	0.00	39.79
2011	4.34	0.88	7.27	0.00	39.82
2012	4.65	1.17	7.51	0.00	40.39
2013	4.91	1.64	7.28	0.00	41.57
2014	4.65	1.56	6.87	0.00	37.63
2010 – 2014	**4.53**	**1.23**	**7.17**	**0.00**	**41.57**

The institutional shareholdings in Malaysian listed family companies are relatively stable over the five-year period. Over the five-year period, the mean value of *DIS* is 10.98%, as shown in Panel A; while the mean value of *FIS* is 4.53%, as shown in Panel B. The DIS ranges from 0.00% to 57.33% whilst the *FIS* ranges from 0.00% to 41.57. The maximum institutional ownership in Malaysian companies reported by Abdul-Wahab and Abdul-Rahman (2009) is 90.55% with the mean value of 12.65%; the maximum foreign institutional ownership reported by Ghazali (2010) is 80.16% with the mean value of 23.83%. The findings suggest that Malaysian listed family companies have lower levels of institutional ownership, both domestic and foreign. Anderson and Reeb (2004) report that the US family companies are associated with

significantly fewer institutional investors. A recent US study by Fernando, Schneible, and Suh (2014) also note that institutional investors avoid investing in family companies. Similarly, Croci, Gonenc, and Ozkan (2012) find out that the shareholdings of both domestic and foreign institutional investors are lower in family companies compared to non-family companies in the context of Continental Europe. Clearly, institutional investors invest less in family companies regardless of developed or developing countries.

The relatively low institutional shareholdings in family companies could be interpreted in two ways. On the one hand, family shareholders are reluctant to disperse the ownership concentration to external institutional investors. The family shareholders may be concerned the company's direction and management would be influenced by the institutional investors, which deviate from the interests of the family. On the other hand, the institutional investors are aware of the prominent misappropriation and expropriation issues in family companies and thus have less interest to invest in family companies. Schultz, Tan, and Walsh (2010) argue that foreigners invest less in the companies residing in countries with poor outsider protection and have ownership structures that are conducive to governance problems. The finding of this study suggests that foreign institutional investors are less confident with regard to the corporate governance practices in Malaysian listed family companies, which are perceived to have poor minority shareholders' protection and a high possibility of wealth expropriation by controlling shareholders. The comparatively low shareholdings by institutional investors in Malaysian listed family companies trigger the curiosity whether they are effective governing mechanisms that minority shareholders can rely on.

5.5 Control Variables

Table 5.21 summarises the descriptive statistics for the control variables, which include family ownership (*FO*); board size (*BS*); total assets (*TA*); firm leverage (*LEV*); lagged firm performance (*ROA(-1)*); and growth opportunities (*MV*).

Table 5.21: Descriptive statistics for control variables

Period	Mean	Median	Std. Dev.	Min.	Max.
FO **(%)**					
2010	46.97	47.05	13.10	20.78	78.93
2011	47.52	47.10	13.46	20.78	88.72
2012	47.74	47.41	13.69	20.77	85.46
2013	47.43	47.37	13.71	20.11	85.46
2014	47.47	47.37	14.20	20.13	79.14
2010 – 2014	**47.43**	**47.36**	**13.64**	**20.11**	**88.72**
BS					
2010	7.57	7.00	1.73	4.00	13.00
2011	7.60	7.00	1.71	4.00	13.00
2012	7.58	7.00	1.78	4.00	13.00
2013	7.62	7.00	1.823	4.00	13.00
2014	7.61	7.00	1.81	4.00	13.00
2010 – 2014	**7.60**	**7.00**	**1.77**	**4.00**	**13.00**
TA **(RM billion)**					
2010	1.07	0.29	3.89	0.03	46.99
2011	1.14	0.32	4.063	0.02	48.91
2012	1.25	0.35	4.37	0.02	51.87
2013	1.34	0.38	4.82	0.02	60.61
2014	1.44	0.41	4.79	0.02	60.16
2010 – 2014	**1.25**	**0.35**	**4.41**	**0.02**	**60.60**
LEV **(%)**					
2010	37.46	37.25	17.94	2.15	86.84
2011	37.78	36.41	19.11	2.13	110.21
2012	37.90	36.69	20.10	2.08	164.07
2013	36.95	35.51	20.07	2.48	175.93
2014	36.81	35.35	20.47	2.78	190.13
2010 – 2014	**37.41**	**36.24**	**19.71**	**2.08**	**190.13**
ROA(-1) **(%)**					
2010	6.20	5.15	6.86	(13.75)	34.38
2011	5.90	5.56	6.41	(18.88)	34.52
2012	5.39	4.86	6.95	(20.52)	37.67
2013	5.68	4.89	5.68	(8.18)	31.45
2014	5.49	5.09	7.49	(26.73)	57.18
2010 – 2014	**5.73**	**5.09**	**6.71**	**(26.73)**	**57.18**
MV **(%)**					
2010	98.16	69.00	107.86	18.00	1243.00
2011	86.95	63.00	88.75	(18.00)	1197.00
2012	88.10	64.00	88.72	(9.00)	1024.00
2013	99.84	72.00	94.16	(9.00)	875.00
2014	104.58	83.00	84.43	(8.00)	671.00
2010 – 2014	**95.52**	**70.00**	**93.43**	**(18.00)**	**1243.00**

Legend: *FO* is the family ownership; *BS* is the board size; *TA* is the total assets; *LEV* is the ratio of total debts to total assets; *ROA(-1)* is the lagged ratio of net income to total assets; *MV* is the ratio of market value to book value of equity.

The overall mean value of family ownership (*FO*) over the five-year period is 47.43%. Noticeably, the family ownership is substantially higher than the domestic (*DIS*) and foreign institutional shareholdings (*FIS*) reported in Table 5.20. The maximum *FO* is 88.72% in 2011 while the minimum *FO* is 20.11% in 2013. The highly concentrated family ownership in Malaysian listed family companies is consistent with prior literature (Claessens, Djankov and Lang 2000; Amran and Che-Ahmad 2010; Azizan and Ameer 2012).

The overall mean value of board size (*BS*) over the five-year period is 7.60. The total number of directors on corporate boards among family companies is constant throughout the study period with the smallest board consisting of 4.00 directors and the maximum number being 13.00 directors. Compared to the average board size of 10.42 of family companies in Continental Europe (Croci, Gonenc and Ozkan 2012), the board size of Malaysian listed family companies are smaller. This finding is consistent with previous studies (Yatim, Kent and Clarkson 2006; Lim and Yen 2011).

The firm size measured by total assets (*TA*) increases gradually over the five-year period, from RM1.07 million in 2010 to RM1.44 million in 2014. The overall mean value of *ta* is RM 1.25 million. The variation in *ta* over the five-year period is huge, with the minimum value of RM0.02 million and the maximum value of RM60.60 million. Prior literature records similar firm size as this study (Yatim, Kent and Clarkson 2006; Lim and Yen 2011).

The mean value of firm leverage (*LEV*) over the five-year period is 37.41%. The mean values of *LEV* recorded in the last two years of the study period, which are 36.95% in 2013 and 36.81% in 2014, are lower than the overall mean value. The mean value recorded in this study is lower than the past studies which report the mean value of 40.00% or higher (Lim and Yen 2011; Bliss, Gul and Majid 2011; Saad 2010; Benjamin, Zain and Wahab 2016). This suggests that Malaysian listed family companies do not use huge amounts of debt to finance the business. Despite the comparatively lower average *LEV*, the maximum *LEV* over the five-year period is up to 190.13% recorded in 2014. One the other hand, the minimum *LEV* for each of the study period is less than 3.00%.

The mean value of lagged return on assets (*ROA(-1)*) over the five-year study period is 5.73%. This is higher than the findings reported by previous studies which include both family and non-family companies (Abdul-Wahab and Abdul-Rahman 2009; Lim and Yen 2011). The finding suggests that family companies perform better than the overall companies in Malaysia do. This is in accordance with the extant literature in developed countries showing that family companies perform better than non-family companies do (Anderson and Reeb 2003; Maury 2006; Ali, Chen and Radhakrishnan 2007; Andres 2008). The overall mean (*ROA(-1)*) over the five-year period is lower than the mean value recorded in 2010 and 2011, which are 6.20% and 5.90% respectively. The decreasing *ROA(-1)* over the five-year period from 6.20% in 2010 to 5.49% in 2014 indicates that the firm performance of family companies has declined.

The mean value of overall market to book value of equity (*MV*) over the five-year period is 95.52%. This is higher than the mean value of 91.00% reported by Lim and Yen (2011) who include both family and non-family companies in their sample set. This is similar to past studies reporting family companies possess higher market to book value of equity ratio than non-family companies (Ali, Chen and Radhakrishnan 2007; Croci, Gonenc and Ozkan 2012). The highest (maximum) *MV* is 1242% reported in 2010. The mean *MV* of the sample family companies increases steadily since 2011.

5.6 Correlation Analysis - Spearman's Rank Correlation

This study conducts Spearman's rank correlation analysis[46] to provide preliminary insights into the correlation between two variables without controlling for other factors. Spearman's rank correlation is chosen rather than the Pearson correlation because it is not very sensitive to outliers and can be performed even if the variables are not normally distributed (Laerd Statistics 2017). Spearman's rank correlation is performed to assess the correlation between executive remuneration and the explanatory variables, namely family participation on board, corporate governance mechanisms, institutional ownership, as well as the control variables. It is run using 279 sample family

[46]This study also run Pearson correlation for continuous variables. Appendix 5.2 reports the results of the Pearson correlation, which are similar to the Spearman's rank correlation's results.

companies, without any data transformation and outlier exclusion. Table 5.22 presents the Spearman's rank correlation matrix.

As shown in Table 5.22, there is a significant negative correlation between the independent non-executive directors on board (*ID*) and executive remuneration (*EXREM*) at 0.01 significance level. This indicates that independent non-executive directors play a governing role in restraining executive remuneration in Malaysian listed family companies and provides a preliminary support to this study's hypothesis 3 (H_3).

The average tenure of independent non-executive directors (*IDT*) is positively correlated with *EXREM* at 0.05 significance level. This positive correlation provides preliminary support to hypothesis 4 (H_4). Over longer serving period on board, the independent non-executive directors develop friendly relationships with the executive directors or family directors in family companies. Consequently, their independent role in governing the executive remuneration is compromised. The significant positive correlation between *IDT* and the family directors on board (*FD*) implies that family directors tend to retain the existing independent non-executive directors rather than appointing new directors. This finding complements Li et al. (2013) that family companies tend to keep friendly independent directors and let them to accumulate longer tenure. It is questionable whether the long-tenured independent directors in family companies are kept for the allegiance to the family or their ability to effectively monitor. A friendly board would enable the family directors to consume private benefits through executive remuneration.

Moreover, Table 5.22 shows that both domestic (*DIS*) and foreign institutional shareholdings (*FIS*) are positively correlated with *EXREM* at 0.01 significance level. This is in contradiction to the expectations of hypotheses 7 (H_7) and 8 (H_8) that they would govern and restrain the executive remuneration. A possible interpretation is that when there is more investments from institutional investors, the executive directors spend more time and efforts dealing with the increasing demands of different institutional investors, thus they are remunerated for the extra effort exerted.

Table 5.22: Spearman's rank correlation matrix

	EXREM	*FD*	*FCEO*	*ID*	*IDT*	*RD*	*IDRC*	*DIS*	*FIS*	*FO*	*BS*	*TA*	*LEV*	*ROA(-1)*	*MV*
EXREM	1														
FD	0.0257	1													
FCEO	-0.0345	0.2125***	1												
ID	-0.0824***	-0.2874***	-0.0045	1											
IDT	0.0664**	0.0596**	0.0206	-0.0698**	1										
RD	0.0212	-0.0034	0.1722***	-0.0124	-0.006	1									
IDRC	-0.043	0.017	-0.0091	0.2950***	-0.0575**	0.0221	1								
DIS	0.0924***	-0.1202***	-0.0657***	-0.0984***	0.1325***	-0.0629**	-0.1454***	1							
FIS	0.3271***	-0.1005***	-0.1042***	0.0363	0.1155***	0.011	-0.0452*	0.1357***	1						
FO	0.0982***	0.2412***	0.0494*	-0.0857***	-0.0325	0.0900***	0.0641**	-0.2747***	-0.1013***	1					
BS	0.3619***	0.0268	-0.1227***	-0.3924***	0.0933***	-0.0990***	-0.0482*	0.0652**	0.1235***	0.0424	1				
TA	0.5053***	-0.0123	-0.1124***	0.0067	0.1990***	-0.0718**	-0.0759***	0.2334***	0.5189***	0.0668**	0.2428***	1			
LEV	0.0564**	-0.0231	-0.0192	0.0037	-0.0571**	-0.1841***	-0.0334	0.0049	-0.1037***	-0.1379***	0.0614**	0.2300***	1		
ROA(-1)	0.2567***	0.0085	0.0128	-0.0237	0.011	0.0619**	-0.0435*	0.0943***	0.1629***	0.1343**	0.0970***	0.1290***	-0.2707***	1	
MV	0.2455***	-0.1154***	0.0089	-0.0066	0.001	-0.0087	-0.1549***	0.2044***	0.2149***	0.0947***	0.1472***	0.1409***	-0.0611**	0.4645***	1

Legend: Spearman's rank correlation matrix shows the correlation coefficients for all the explanatory and control variables and the dependent variable. *EXREM* is the executive remuneration; *FD* is the proportion of family directors on board; *FCEO* is a dummy variable with 1= family CEO and 0 = non-family CEO; *ID* is the proportion of independent non-executive directors on board; *IDT* is the average tenure of independent non-executive directors on board; *RD* is a dummy variable with 1 = same individual holds both CEO and board chairman positions and 0 = different individuals hold CEO and board chairman positions; *IDRC* is the proportion of independent non-executive directors on the remuneration committee; *DIS* is the percentage shareholdings of domestic institutional investors; *FIS* is the percentage shareholdings of foreign institutional investors; *FO* is the percentage shareholdings of controlling family; *BS* is the board size; *TA* is total assets; *LEV* is the ratio of total debts to total assets; *ROA(-1)* is the lagged ratio of net income to total assets; *MV* is the ratio of market value to book value of equity. ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively.

Further, both domestic (*DIS*) and foreign (*FIS*) institutional shareholdings are negatively correlated with family directors on board (*FD*) and family CEO (*FCEO*) at 0.01 significance level. This suggests that both domestic and foreign institutional investors have less preference investing in companies where the CEO is related to the controlling shareholders and there is a higher representation of controlling shareholders on the board of directors. Besides, the negative correlation between DIS and CEO-chairman role duality (*RD*) suggests that domestic institutional investors have less interest investing in the companies where the positions of CEO and board chairman are held by the same individual. In general, the negative correlations with *FD, FCEO* and *RD* suggest that institutional investors perceive such kind of board composition as conducive to poor governance, and their shareholders' rights are less protected as the board may act in the interests of the controlling shareholders.

The independent variables - family directors on board (*FD*), family CEO (*FCEO*), CEO-chairman role duality (*RD*), independent non-executive directors on remuneration committee (*IDRC*), which are hypothesised to have an influence on the executive remuneration, do not show any significant correlations with executive remuneration. These insignificant correlations suggest that controlling shareholders and their family do not use their board directorship and managerial power to expropriate minority shareholders via executive remuneration. However, family ownership (*FO*) shows a positive correlation with the executive remuneration at 0.01 significance level; suggesting that controlling family use their concentrated ownership instead of the board directorship or managerial power to influence executive remuneration. The independent non-executive directors on remuneration committee play an insignificant role in the remuneration setting. This raises doubt pertaining to the efficacy of remuneration committee. The family companies may just establish the remuneration committee in order to fulfil the best practice recommended by the MCCG. All of the control variables, family ownership (*FO*), board size (*BS*), firm size (*TA*), firm leverage (*LEV*), lagged firm performance (*ROA(-1)*), and growth opportunities (*MV*) are positively and significantly correlated with the executive remuneration.

In general, the Spearman's rank correlation provides preliminary insights on the correlation between two variables without controlling other factors. The highest correlation of 0.5053 is reported between *EXREM* and *TA*. None of the variables are correlated at 0.8 and above, indicating that there is no multicollinearity problem (Gujarati 1995; Hair et al. 1998). Each of the above mentioned possible predictor variables are included in the multiple regression analysis in the next chapter.

5.7 Summary

This chapter discusses the descriptive statistics for all the variables included in this study. The statistics are based on 279 sample family companies listed on the Main Board of Bursa Malaysia over the five-year period from 2010 to 2014. The executive remuneration shows an upward trend over the five-year period. Approximately 90.00% of the sample family companies elect their family members to hold the position of CEO. The findings show that Malaysian listed family companies elect more independent non-executive directors than family directors to sit on corporate boards. This may be attributed to the continuous revisions of the MCCG which emphasises the board independence. Notwithstanding this, more than 50.00% of the independent non-executive directors have served in the same capacity for more than nine years. This suggests the new corporate governance best practice introduced by the revised MCCG 2012, which is, the tenure of independent non-executive directors should be capped at nine years, has yet to be widely accepted by the family companies. A majority of the sample family companies comply with the MCCG to separate the roles of CEO and board chairman. Further, more than 90.00% of the sample family companies have established remuneration committee, which comprises a majority of independent non-executive directors. Moreover, the findings reveal that the institutional shareholdings in family companies, both domestic and foreign, are relatively low compared to the overall Malaysian companies.

CHAPTER SIX: MULTIVARIATE ANALYSIS

6.0 Introduction

This chapter presents the results of multivariate test of hypotheses. The test involves the use of multiple regression model with executive remuneration as the dependent variable in relation to the explanatory variables. Specifically, the multiple regression model investigates the association between executive remuneration and independent variables in each of the study periods and over the five-year study period. Control variables are also included in the multiple regression model.

This chapter is organised as follows. Section 6.1 discusses the detection of outlier and influential point; section 6.2 assesses the validity of model by testing the underlying assumptions of multiple regression model, which include the normality of residuals, linearity, homoscedasticity, and multicollinearity; section 6.3 discusses the multiple regression results for each of the study periods; section 6.4 discusses the panel regression results of five-year data; section 6.5 conducts the sensitivity tests to provide a robustness check of panel regression results; section 6.6 presents the endogeneity test; and section 6.7 summarises this chapter.

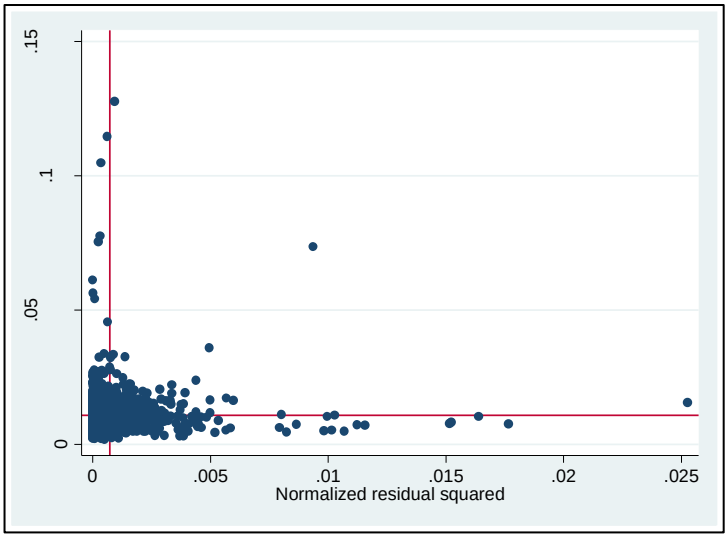
6.1 Detecting Outlier and Influential Point

Detecting outlier and influential point is one of the most essential statistical diagnostics for multiple regression model. Outlier is an observation with a unique combination of the characteristics identified as distinctly different from other observations (Hair et al. 2010). The graph of leverage-versus-residual-squared is used to assess the presence of outlier(s). Based on Figure 6.1, there is a few data with high leverage (outliers). Subsequently, Cooks' Distance examination is conducted to examine if those outliers are influential[47]. Tabachnick and Fidell (2007) define the influential points as those with Cooks' Distance above 1. The Cooks' Distance values of the all data in this study

[47] An influential point is an outlier that greatly affects the slope of the regression line. The outliers are influential only if they have a big effect on the regression model. Sometimes, the outliers may not have big effects. For example, when the data set is very large, a single outlier may not have a big effect on the regression model.

is less than 1, indicating there is no influential point. Hence, all of the 1,395 observations remain in the sample of this thesis.

Figure 6.1: Graph of leverage-versus-residual-squared



6.2 Assessing the Validity of Model

Before proceeding to the multiple regression analysis, the validity of the model is assessed. This is done by testing the underlying assumptions, which include the normality of residuals, linearity, homoscedasticity, and multicollinearity.

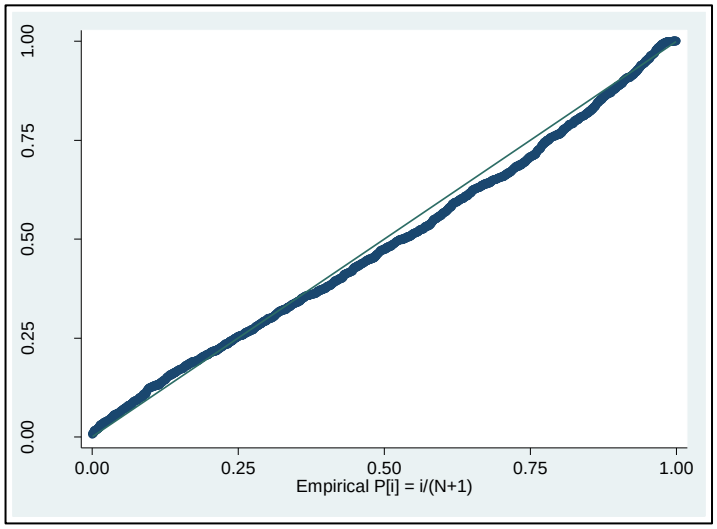
(i) Normality of Residuals

Multiple regression model requires the assumption of normally distributed residuals. Normality of residuals is checked using Shapiro Wilk test and normal probability plot of regression standardised residuals. Table 6.1 shows the result of Shapiro Wilk test while Figure 6.2 depicts the normal probability plot. Although the Shapiro Wilk test indicates non-normality of residuals (p-value < 0.05), the normality probability plot shows that the residuals are fairly normally distributed and they lie on a straight diagonal line from the bottom left to the top right. Thus, the assumption of normality is deemed met.

Table 6.1: Shapiro Wilk test result

Null hypothesis:	Residuals are normally distributed
p-value:	0.00

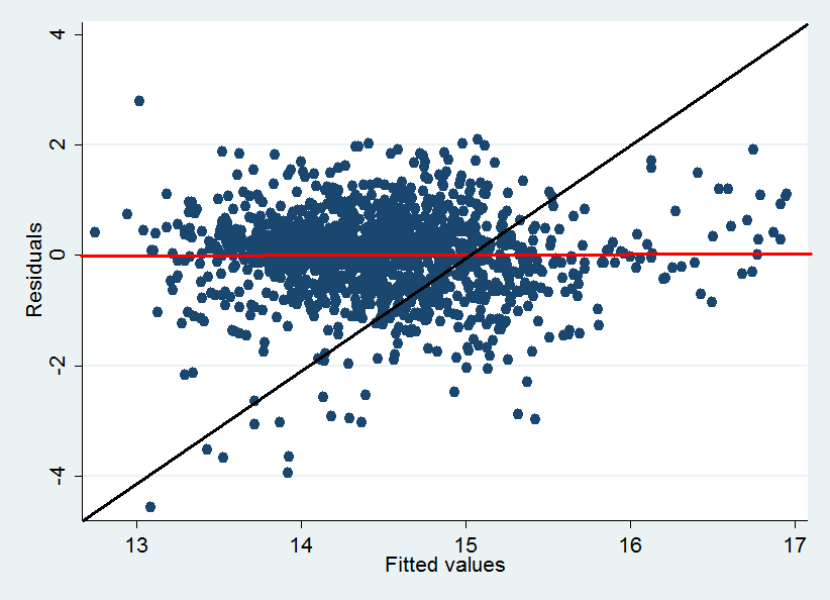
Figure 6.2: Normal probability plot of regression standardised residuals



(ii) Linearity

In addition, the multiple regression model requires the residuals to have a straight line relationship with the predicted dependent variable scores, which is known as linearity (Pallant 2011). The linearity assumption is tested using the scatterplot of standardised fitted values against the standardised residuals (Williams, Grajales and Kurkiewicz 2013). Figure 6.3 observes the linearity of relationship (black line). Hence, the assumption of linearity is met.

Figure 6.3: Scatterplot of standardised fitted values against standardised residuals



(iii) Homoscedasticity

Another underlying assumption to check is the homoscedasticity. This is to ensure that the differences between the actual and estimated values of executive remuneration (residuals) are normally distributed and the variance of residuals is the same for all fitted values of executive remuneration. The scatterplot of standardised fitted value against the standardised residuals is used to assess the assumption of homoscedasticity (Osborne and Waters 2002; Hayes and Cai 2007). Figure 6.3 shows that the residuals roughly form a horizontal line around the 0 point (red line) and the majority of the residuals fall between -2 and +2. This indicates that the variance of the residuals is fairly constant; hence, the assumption of homoscedasticity is deemed met.

(iv) Multicollinearity

Another potential statistical problem in the multiple regression model is multicollinearity. This concept describes the degree to which an variable's effect can be predicted by the other variable (Hair et al. 1998). Multicollinearity exists when the independent variables are highly correlated; this will cause a serious problem in multiple regression model as the effect of each explanatory variable becomes difficult to identify. The correlation matrix is a tool to get a rough idea of the relationships between the independent variables, as provided in Table 5.22 in Chapter Five. Gujarati (1995) and Hair et al. (1998) identify the correlation coefficient of 0.8 and above as a benchmark score for the multicollinearity. Based on Table 5.22, none of the variables has the correlation coefficient exceeding 0.8. Thus, the multicollinearity between the independent and control variables is not deemed as an issue in this study. In addition, the variance inflation factor (VIF) and tolerance are computed for each independent and control variable to further assess the multicollinearity. Multicollinearity is considered a problem if the VIF of a variable is greater than 10.0 and tolerance is lower than 0.1 (Pallant 2011). Table 6.2 shows that the VIF of each variable does not exceed 2.0, while the tolerance is greater than 0.10. The above indications are well within the acceptable parameters in controlling the potential multicollinearity problem. Thus, it is concluded that multicollinearity does not seem to be an ongoing concern in explaining the multiple regression results.

Table 6.2: VIF and tolerance statistics

Variable	VIF	Tolerance
FD	1.31	0.76
FCEO	1.14	0.87
ID	1.51	0.66
IDT	1.09	0.92
RD	1.09	0.91
IDRC	1.12	0.89
DIS	1.30	0.77
FIS	1.42	0.70
FO	1.34	0.75
BS	1.39	0.72
LNTA	1.78	0.56
LEV	1.31	0.76
ROA(-1)	1.38	0.72
MV	1.31	0.76

Overall, the diagnostic tests exploring the statistical assumptions as illustrated above indicate that the multiple regression model is valid and reliable.

6.3 Multiple Regression Results for Each Year

Multiple regression model is run separately for each of the study periods from 2010 to 2014 by using 279 sample family companies. This cross-sectional analysis provides a better glimpse of the factors influencing executive remuneration, while at the same time, examines the efficacy of the corporate governance mechanisms strengthened by the revised MCCG 2012.

Table 6.3 shows the ordinary least squares (OLS) multiple regression results for each period. The adjusted R^2, a measure of goodness of fit, reports the amount of variance of executive remuneration explained by the model. The adjusted R^2 ranges from 32.95% to 36.44% while the F-statistic value ranges from 10.97 to 12.98 (p-value < 0.01) over the study periods.

Table 6.3: OLS multiple regression results for each year

	2010	2011	2012	2013	2014
FD	**0.0212**	**0.0459**	**0.0697**	**0.3288**	**0.4951**
	0.05	*0.11*	*0.16*	*0.75*	*1.15*
	(0.48)	(0.45)	(0.44)	(0.23)	(0.13)
FCEO	**0.3148**	**0.0228**	**0.1740**	**0.0838**	**0.0105**
	1.78	*0.13*	*0.95*	*0.48*	*0.06*
	(0.04***)	(0.45)	(0.17)	(0.32)	(0.48)
ID	**-0.3865**	**0.0594**	**-0.1170**	**0.1325**	**-0.3181**
	-0.71	*0.11*	*-0.20*	*0.24*	*-0.59*
	(0.24)	(0.46)	(0.42)	(0.40)	(0.28)
IDT	**-0.0135**	**-0.0153**	**-0.0102**	**-0.0168**	**-0.0183**
	-0.99	*-1.21*	*-0.75*	*-1.34*	*-1.49*
	(0.16)	(0.11)	(0.23)	(0.09*)	(0.07*)
RD	**0.1142**	**0.2521**	**0.1338**	**0.2370**	**0.2225**
	1.01	*2.22*	*1.12*	*1.99*	*1.85*
	(0.16)	(0.01***)	(0.13)	(0.02**)	(0.03**)
IDRC	**0.2010**	**-0.0448**	**0.2711**	**0.2302**	**0.0276**
	0.95	*-0.21*	*1.2*	*0.99*	*0.12*
	(0.17)	(0.42)	(0.12)	(0.16)	(0.45)
DIS	**-0.4543**	**0.1203**	**-0.1305**	**0.0458**	**0.0574**
	-0.87	*0.23*	*-0.24*	*0.09*	*0.11*
	(0.19)	(0.41)	(0.40)	(0.47)	(0.46)
FIS	**-0.9676**	**-0.5711**	**-0.1525**	**-0.5624**	**-0.4780**
	-1.16	*-0.75*	*-0.20*	*-0.72*	*-0.59*
	(0.12)	(0.23)	(0.42)	(0.24)	(0.28)
FO	**0.0553**	**0.3849**	**0.1988**	**-0.0724**	**-0.1447**
	0.13	*0.98*	*0.49*	*-0.18*	*-0.37*
	(0.45)	(0.16)	(0.31)	(0.43)	(0.36)
BS	**0.1085**	**0.1316**	**0.1478**	**0.1418**	**0.1053**
	3.43	*4.17*	*4.49*	*4.57*	*3.35*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
LNTA	0.4176	0.3822	0.3550	0.3711	0.3790
	7.74	*7.66*	*6.82*	*7.47*	*7.99*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
LEV	-0.2388	0.1516	0.2670	-0.0783	0.0283
	-0.78	*0.55*	*0.97*	*-0.28*	*0.11*
	(0.22)	(0.29)	(0.17)	(0.39)	(0.46)
ROA(-1)	**0.0039**	**0.0185**	**0.0192**	**0.0146**	**0.0155**
	0.56	*2.24*	*2.07*	*1.7*	*1.5*
	(0.29)	(0.01***)	(0.02**)	(0.04***)	(0.07*)
MV	**0.1131**	**0.0456**	**0.0708**	**0.1040**	**0.1545**

	2.32	*0.76*	*1.13*	*1.69*	*2.23*
	(0.01***)	(0.22)	(0.13)	(0.05**)	(0.01***)
_CONS	**7.9869**	**8.1639**	**8.1715**	**8.2437**	**8.7403**
	12.06	*12.56*	*12.07*	*12.21*	*13.13*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
R^2	0.3632	0.4054	0.3964	0.4060	0.4073
Adjusted R^2	0.3295	0.3739	0.3644	0.3745	0.3759
F-statistic	10.97***	12.33***	12.16***	12.98***	12.96***

Legend: Coefficient is bold. t-statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

Table 6.3 shows that the family directors on board (*FD*) are not statistically associated with executive remuneration (*LNEXREM*) for each of the periods. As such, H_1 is not supported. The findings are consistent with the insignificant association reported by Gomez-Mejia, Larraza-Kintana, and Makri (2003) in the context of United States, but contrary to the positive association reported by Barontini and Bozzi (2011) in the Italian context. These findings suggest that the controlling family in Malaysian listed family companies do not use their board directorship to influence the executive remuneration.

The family CEO (*FCEO*) shows a statistically significant and positive association (p-value < 0.05, t-statistic = 1.78) with *LNEXREM* in 2010. This indicates that the family CEOs of Malaysian listed family companies are entrenched and able to exert a significant control over the setting of executive remuneration in 2010. Except the positive association reported in 2010 which is deemed to be sporadic, *FCEO* is not significantly associated with *LNEXREM* in other study periods. By and large, H_2 is not supported.

The above findings do not support the notion that family directors and CEOs tend to be entrenched and exercise strong influence over the management to pay high level of executive remuneration (Basu et al. 2007; Barontini and Bozzi 2011). Apart from the little evidence of family entrenchment via board directorship, the insignificant influence of *FD* and *FCEO* also provide little empirical evidence that family directors on board play a governing role in reining in executive remuneration. Combs et al. (2010) document that the family directors possess the incentives to invest their energy

and time to fully understand the executive activities, and to ensure the remuneration packages of executive directors are tied to the long-term interest of the family. The findings of this study do not support the argument of Combs et al. (2010) that family participation on board provides an effective monitoring source of executive remuneration.

Contrary to past studies (Basu et al. 2007; Sapp 2008; Combs et al. 2010; Barontini and Bozzi 2011), the findings of this study show that family directors and family CEOs of Malaysian listed family companies have neither entrenchment effect nor incentive alignment effect via executive remuneration. The board directorships of the controlling shareholders and/or their family members do not exacerbate the Type II agency conflict.

The independent non-executive directors on board (*ID*) show an insignificant association with the *LNEXREM* for each of the study periods. Thus, H_3 is not supported. This is inconsistent with the negative association reported by prior studies (Ghosh 2006; Abdullah 2006; Lim and Yen 2011; Yatim 2013). This may be attributed to the inclusion of non-family companies in their sample sets; hence, the statistical results are generalised across the overall companies. The insignificant association reported in this study indicates that the *ID* in Malaysian listed family companies plays an indifferent role in governing executive remuneration. This could be due to the fact that they owe their positions to the controlling shareholders who elected them to the board. They have the tendency to show their appreciation in order to be re-elected and continue to collect directors' fees (Hart 1995; Fahlenbrach 2009). Thus, they are less opposed in questioning executive remuneration. The finding suggests that the independent non-executive directors are not a good representation of the minority shareholders in governing executive remuneration and could not ameliorate the Type II agency conflict in Malaysian listed family companies. Further, little empirical evidence is found to support the effectiveness of the revised MCCG 2012, which emphasises the independence role played by the independent non-executive directors.

The average tenure of the independent non-executive directors (*IDT*) shows an insignificant association with the *LNEXREM* in 2010, 2011 and 2012. Nonetheless, it

is statistically significant and negatively associated with the *LNEXREM* in 2013 (p-value < 0.10, t-statistic = -1.34) and 2014 (p-value < 0.10, t-statistic = -1.49). The negative association is contrary to the hypothesised positive association. Consequently, H_4 is not supported. In Chapter Five, Table 5.15 shows that the *IDT* in 2013 and 2014 exceed nine years. The negative association reported in 2013 and 2014 implies that independent non-executive directors with the *IDT* exceeding nine years could better monitor and restrain the executive remuneration. As such, these findings do not support the new corporate governance best practice introduced by the revised MCCG 2012, which is, the tenure of independent director should not exceed a cumulative term of nine years (Securities Commission Malaysia 2012). Rather, this finding supports the argument of past literature that independent non-executive directors with a longer tenure accumulate greater firm specific knowledge, which enhances their commitment and monitoring effectiveness (Dhaliwal, Naiker and Navissi 2010; Liu and Sun 2010; Li et al. 2013; Chan, Liu and Sun 2013). The findings of this study set forth that the independent non-executive directors with a longer tenure could play an effective role in governing executive remuneration in Malaysian listed family companies and mitigate the Type II agency conflict.

The influence of the CEO-chairman role duality (*RD*) on *LNEXREM* is different across the study periods. It shows an insignificant association in 2010 (p-value > 0.10, t-statistic = 1.01) and 2012 (p-value > 0.10, t-statistic = 1.12); but a statistically significant and positive association in 2011 (p-value < 0.01, t-statistic = 2.22), 2013 (p-value < 0.05, t-statistic = 1.99), and 2014 (p-value < 0.05, t-statistic = 1.85), H_5 is supported. The significant positive association in 2011 may be sporadic as the year before and after 2011 show an insignificant association. The insignificant association is consistent with some of the past findings which document that the role duality does not fully capture the CEO power in relation to establishing remuneration (Conyon and Peck 1998; Ramaswamy, Veliyath and Gomes 2000; Connelly, Limpaphayon and Nagarajan 2012; Theeravanich 2013). Nevertheless, the significant positive association reported in 2013 and 2014, which is after the introduction of the revised MCCG 2012, implies the ineffectiveness of the revised MCCG 2012 pertaining to separating the roles of board chairman and CEO. In Chapter Five, Table 5.13 reports that approximately 90% of CEOs of the sample companies are family directors. The

positive association indicates that the controlling family uses the structural positions of CEO and board chairman to intervene in the remuneration arrangement. The CEO-chairman role duality structure erodes the board governance on executive remuneration and enables the family CEOs to design high level of executive remuneration. The positive association is consistent with some of the past studies (Core, Holthausen and Larcker 1999; Cyert, Kang and Kumar 2002; Ghosh 2006). When the CEO is also the board chairman, the board monitoring is compromised because the CEO has the power to recruit or dismiss the board directors including independent non-executive directors (Crystal 1991). As such, the independent non-executive directors in Malaysian listed family companies are passive advisors, particularly concerning executive remuneration. In this instance, the Type II agency conflict becomes severe as it is difficult for the minority shareholders and independent non-executive directors to challenge the decisions of CEOs, particularly family CEOs. CEO-chairman role duality structure confers power to the CEO to fully control the management and the board of directors (Combs et al. 2007; Essen, Oosterhout and Carney 2012).

The proportion of independent non-executive directors on remuneration committee (*IDRC*) shows an insignificant association with the *LNEXREM* for each period. Hence, H_6 is not supported. This finding is inconsistent with Lim and Yen (2011) reporting a negative association between the bonuses paid to executive directors and the proportion of independent non-executive directors on remuneration committee. Nonetheless, the finding is consistent with some of the past studies in the context of developed countries, the United Kingdom and New York (Benito and Conyon 1999; Anderson and Bizjak 2003). The insignificant influence of *IDRC* reported in this study implies the ineffectiveness of remuneration committee as a governance mechanism in overseeing the remuneration setting in Malaysian listed family companies. The findings suggest that, to some extent, the remuneration committees in Malaysian listed family companies have been overshadowed by the powerful family CEOs and management, rendering them ineffective in structuring the optimal executive remuneration. Besides, the involvement of controlling shareholders and their family members on remuneration committee may cause the independent non-executive directors ineffective. The remuneration committees in Malaysian listed family

companies are deemed to be puppet committees with no substance role, and could not mitigate the Type II agency conflict via executive remuneration.

Furthermore, both domestic (*DIS*) and foreign institutional shareholdings (*FIS)* do not have any significant influence on the *LNEXREM* in Malaysian listed family companies for each period. Thus, H_7 and H_8 are not supported. The insignificant influence of *DIS* and *FIS* suggest that institutional investors, both domestic and foreign, do not play an effective role in monitoring executive remuneration. This may be due to their relatively low institutional shareholdings in family companies, making their voice less powerful and influential. In addition, low levels of shareholdings discourage the monitoring incentive of institutional investors as the costs of monitoring may exceed the benefits. Besides, stock market liquidity may encourage them to sell their shares and exit rather than intervene in the management. The findings are consistent with prior literature documenting various reasons attributing to the ineffectiveness of institutional investors, such as potential liquidity costs (McCahery, Sautner and Starks 2016; Coffee 1991; Maug 1998), free-rider problem with other investors, conflict of interests and strategy misalignment (Ivanova 2017; Pound 1988). Nonetheless, the findings are inconsistent with the negative association reported by Hartzell and Starks (2003), Dong and Ozkan (2008), and Abdul-Wahab and Abdul-Rahman (2009) in the context of the United Kingdom, the United States, and Malaysia, respectively. In summary, the institutional investors, both domestic and foreign, are not an effective external monitoring mechanism that the minority shareholders could rely on to mitigate the family opportunism through executive remuneration. They could not ameliorate the typical Type II agency problem in Malaysian listed family companies.

With regard to the control variables, family ownership (*FO*) shows an insignificant influence on the *LNEXREM* for each of the periods. This finding provides little empirical evidence on the entrenchment effect of controlling family shareholders via executive remuneration. The board size (*BS*) is positively associated with the *LNEXREM* at 0.01 significance level. This is in accordance with the past findings (Kashif and Mustafa 2012; Yatim 2013; Ozkan 2011; Coakley and Iliopoulou 2006; Ghosh and Sirmans 2005; Core, Holthausen and Larcker 1999). Besides, the firm size (*LNTA*) is positively associated with the *LNEXREM* at 0.01 significance level,

consistent with the past findings (Yatim 2013; Kashif and Mustafa 2012; Lim and Yen 2011; Ghosh 2006; Tosi et al. 2000; Hassan, Christopher and Evans 2003; Conyon 1997; Tosi and Gomez-Mejia 1994). The firm leverage (*LEV*) is not statistically associated with the *LNEXREM*. This is inconsistent with the past studies documenting that the company with a higher debt level is likely to have less free cash flow, hence, lower level of remuneration is paid (Jensen 1989; Yoshikawa, Rasheed and Brio 2010; Dong and Ozkan 2008). This may be due to the relatively low level of debt used by the Malaysian listed family companies to finance the business; thus, the firm leverage has insignificant bearing effect on the *LNEXREM*. The lagged return of assets (*ROA(-1)*) is positively associated with *LNEXREM* at different significance levels across the study periods, indicating that executive remuneration is directly linked to the prior year firm performance. Further, the *LNEXREM* is positively associated with the growth opportunities (*MV*). The revised MCCG 2012 emphasises that the remuneration packages should be aligned with the business strategy and long-term objectives, and reflect the directors' expertise. The positive association between *LNEXREM* and *MV* indicates that Malaysian listed family companies remunerate the executive directors based on the growth opportunities, which reflect the long-term business objectives.

6.4 Panel Regression Results

Panel data analysis is employed to examine the five-year data (2010 to 2014 inclusive). Three tests, namely F test, Breusch-Pagan Lagrange Multiplier test, and Hausman test are conducted to decide the most efficient estimator for this study.

Table 6.4 shows the result of F test. The p-value of 0.00, which is less than 0.05, indicates the presence of individual specific effects.

Table 6.4: F test result

Null hypothesis:	Variance across entities is zero
F(278,1101)	23.98
p-value:	0.00

In addition, the Breusch-Pagan Lagrange Multiplier test, as shown in Table 6.5, also reports the presence of individual specific effects (p-value < 0.05).

Table 6.5: Breusch-Pagan Lagrange Multiplier test result

Null hypothesis:	Variances across entities is zero
chi2(1):	1824.15
p-value:	0.00

Collectively, the rejection of null hypotheses of F test and Breusch-Pagan Lagrange Multiplier test indicate the presence of individual specific effects. Hence, pooled OLS estimation is not the most efficient estimation for this study as the variance across entities is not equal to zero.

In this instance, the next step is to examine whether the individual specific effects are correlated with the explanatory variables. Random effect model (REM) should be used if there is no correlation, on the other hand, fixed effect model (FEM) should be used if the correlation exists (Torres-Reyna 2007b; Wooldridge 2013; Hsiao 2014). Hausman specific test is conducted to choose between REM and FEM by testing the correlation between the explanatory variables and individual specific effects.

Table 6.6 shows the Hausman specific test result. The p-value of 0.12, which is more than 0.05, does not reject the null hypothesis that the individual specific effects are uncorrelated with the explanatory variables. Hence, the statistical result indicates that REM is more efficient for this study. Besides, the Hausman specific test result suggests there is no endogeneity problem – there is no correlation between the explanatory variables and individual specific effects or error terms. In essence, REM assumes the exogeneity of all explanatory variables with individual specific effects (Mundlak 1978; Wooldridge 2013).

Table 6.6: Hausman specific test result

Null hypothesis:	Individual specific effects are uncorrelated with one or more explanatory variable(s)
chi2(15):	21.65
p-value:	0.12

One of the advantages of REM is that it can estimate coefficient for explanatory variables that are constant over time (Dougherty 2016; Hsiao 2014; Torres-Reyna 2007b; Baltagi 2005). Dougherty (2016) posits that the REM with generalised least squares (GLS) estimation is more attractive because the observed characteristics that

remain constant for each individual are retained in the regression model; however in the FEM estimation, they have to be dropped. Moreover, REM does not lose the degree of freedom in which FEM does (Dougherty 2016). Based on the descriptive statistics reported in Chapter Five, most of the independent variables in this study are fairly constant over the five-year study period, for instance, the proportion of family directors on board, the nomination of family CEO, the proportion of independent directors on board, domestic institutional shareholdings and foreign institutional shareholdings, to name a few. The changes in independent variables over time are trifling. Hence, REM is deemed to be the most appropriate and efficient estimator for this study

Another comparative strength of GLS estimation over the OLS estimation is that it automatically controls the heteroscedasticity (Schurer 2014). As such, the following panel data model is run using REM with GLS estimation:

$$LNEXREM_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 FCEO_{it} + \beta_3 ID_{it} + \beta_4 IDT_{it} + \beta_5 RD_{itt} + \beta_6 IDRC_{it} + \beta_7 DIS_{it} + \beta_8 FIS_{it} + \beta_9 YEAR_{it} + \beta_{10} FO_{it} + \beta_{11} BS_{it} + \beta_{12} LNTA_{it} + \beta_{13} LEV_{it} + \beta_{14} ROA(-1)_{it} + \beta_{15} MV_{it} + + \varepsilon_{it}$$

To assure that there is no heteroscedasticity, Breusch-Pagan/Cook-Weisberg test is conducted. Table 6.7 shows the result of Breusch-Pagan/Cook-Weisberg test. The p-value of 0.35, which is more than 0.05, indicates that the null hypothesis of constant variance of individual specific effects is not rejected. In other words, heteroscedasticity is not a concern in this study.

Table 6.7: Breusch-Pagan/Cook-Weisberg test result

Null hypothesis:	Constant variance of individual specific effects
chi2(1):	0.86
p-value:	0.35

Table 6.8 shows the REM results. The panel regression model of this study explains 37.20% of the variance in executive remuneration, with a statistically significant wald chi(2) of 413.01 (p-value < 0.05).

Table 6.8: REM results

Variable	Coefficient	t-statistic	p-value
FD	0.1780	0.81	0.21
FCEO	0.0768	1.04	0.15
ID	-0.2794	-1.28	0.10*
IDT	-0.0009	-0.18	0.43
RD	0.0777	1.51	0.07*
IDRC	0.0244	0.23	0.41
DIS	-0.2939	-1.14	0.12
FIS	-0.2163	-0.55	0.29
YEAR	0.1180	6.1	0.00***
FO	0.4846	2.04	0.02**
BS	0.0748	5.33	0.00***
LNTA	0.4158	13.45	0.00***
LEV	-0.2117	-1.73	0.04**
ROA(-1)	0.0031	1.51	0.07*
MV	0.0655	3.04	0.00***
_cons	8.2556	19.55	0.00***
Overall R^2	0.3720		
Wald chi2(15)	413.01***		
No. of companies	279		
No. of observation	1395		

Legend: Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

Consistent with the multiple regression results reported in Table 6.3 for individual study period, the *FD* and *FCEO* show insignificant associations (p-value > 0.10, t-statistic = 0.81; p-value > 0.10, t-statistic = 1.04 respectively) with the *LNEXREM*; thus H_1 and H_2 are not supported. These panel regression results provide little empirical evidence that the controlling shareholders and their family members use the board directorship or managerial power to influence executive remuneration. The findings do not support the argument of past literature that family members on corporate boards misappropriate funds through excessive remuneration (Basu et al. 2007; Barontini and Bozzi 2011). Rather, this study puts forward that controlling shareholders and their family members involve in the boards to ensure the ownership and control/management are within the family and the managerial decisions are in congruence to their interests. The family CEOs and family directors may pursue other objectives such as firm survival and non-economic goals. Board directorship does not confer power to the family directors to design remuneration packages. Succinctly, little empirical evidence is found to attest either the entrenchment effect or interest alignment effect of the family shareholders via board directorship. Family directors

and family CEOs do not exacerbate the Type II agency conflict via executive remuneration. The influence of family directors on board may have been counterbalanced by the independent non-executive directors on board (*ID*) as the mean *ID* is greater than the mean *FD* (42.46% versus 40.89%, as reported in Table 5.14 and Table 5.11 respectively).

The *ID* is reported to have a negative association with the *LNEXREM* although the statistical significance level is weak (p-value < 0.10, t-statistic = -1.28). Thus, H_3 is supported. A unit increase in *ID* leads to 27.94% decrease in executive remuneration. This finding is consistent with the past studies (Ghosh 2006; Abdullah 2006; Lim and Yen 2011; Yatim 2013) which include non-family companies in their sample sets. However, those past studies report a higher t-statistic value at 0.05 significance level, while this study reports a t-statistic value of 1.28 at 0.10 significance level. This indicates the weak influence of *ID* on executive remuneration in Malaysian listed family companies. The result suggests that the independent non-executive directors in Malaysian listed family companies are able to monitor and restrain executive remuneration, however, the influence is weak. This may be attributed to the Malaysian culture of high power distance (Haniffa and Cooke 2002; The Iclif Leadership and Governance Centre 2014). According to The Iclif Leadership and Governance Centre (2014), many Asian countries have extraordinarily high levels of power distance; Malaysia scores the highest in power distance, with a rating of 100. In general, the Malaysians are afraid of taking risk and prefer to keep silent as it is the safer alternative. Provided that such culture is deeply instilled in the Malaysians, this study suspects that the independent non-executive directors in Malaysian listed family companies may be introversive and are timid to question the remuneration of executive directors particularly those related to controlling shareholders who are perceived to have a higher rank in the company. There is a genuine concern that the independent non-executive directors are less inclined to govern the executive remuneration intensively as displeasing the controlling shareholders and their family members may risk the opportunity to be re-elected to the board. Generally, the negative association suggests that, to some extent, the independent non-executive directors could restrain the executive remuneration and mitigate the Type II agency conflict in Malaysian listed family companies. They are potentially one of the corporate governance mechanisms

that the minority shareholders could rely on in protecting their interests against family opportunism.

The average tenure of independent non-executive directors (*IDT*) is not statistically associated with *LNEXREM* (p-value > 0.10; t-statistic = -0.18); hence, H_4 is not supported. The insignificant association suggests that long tenure does not confer additional ability to the independent non-executive directors to exert a significant influence on the determination of executive remuneration. There is a concern that this result may be generalised by the samples with high *IDT* and low *IDT*. In order to provide more insights, panel regression model is run separately for subsamples: (i) *IDT* is nine years or less, and (ii) *IDT* is more than nine years. The results are presented and discussed in Chapter Seven.

Table 6.8 reveals a positive and statistically significant association (p-value < 0.10, t-statistic = 1.51) between the *LNEXREM* and the CEO-chairman role duality (*RD*). Consequently, H_5 is supported. This finding is consistent with the past findings in the context of the United States (Core, Holthausen and Larcker 1999; Cyert, Kang and Kumar 2002). Since approximately 90% of the sample companies appoint family CEO, it is posited that the family CEOs use the combined power of board chairman and CEO to influence executive remuneration. The insignificant influence of *FCEO* but positive influence of *RD* imply that the CEO position alone does not confer power to the controlling family to intervene in remuneration arrangement; instead, the controlling family uses the collective power of board chairman and CEO to exert a significant influence on executive remuneration. The CEO-chairman role duality structure gives the controlling family ample opportunity to misappropriate funds through executive remuneration as there is no one to oversee the decisions and actions of family CEO. In short, CEO-chairman role duality aggravates the Type II agency conflict in Malaysian listed family companies via executive remuneration.

Consistent with the multiple regression results reported in Table 6.3 for individual study period, the panel regression results show that the independent non-executive directors on remuneration committee (*IDRC*) have an insignificant association (p-value > 0.10, t-statistic = 0.23) with the *LNEXREM*. As such, H_6 is not supported. This

finding is consistent with the past studies documenting that the remuneration committees play an ineffective governing role in structuring the remuneration in the non-Malaysian context (Benito and Conyon 1999; Anderson and Bizjak 2003). To some extent, the remuneration committees in Malaysian listed family companies have been captured by the management and play a passive role in designing remuneration packages. The remuneration committees in Malaysian listed family companies are deemed to be puppet committees established by the controlling family shareholders merely to comply with the MCCG's recommendation rather than performing governance role. MCCG is based on the comply-or-explain principle, which allows the compliance with the governance practices that best suit the firm features such as activity, operation, size and structure; otherwise, the companies must explain the reasons for non-compliance. The flexibility of the comply-or-explain principle raises doubt pertaining to the motivation of the family companies to comply and establish the remuneration committee when they are not mandated to do so. The compliance of MCCG may be a way to gain the legitimacy and enhance the firm survival. Berrone et al. (2010) relate that the legitimacy-seeking behaviour of family companies is susceptible to institutional pressures. Earlier, Gómez-Mejía et al. (2007) posit that family companies adapt to the external pressures because they are committed to the preservation of family endowments such as the continuation of family business. In spite of the compliance, the result indicates the ineffectiveness of remuneration committee in determining the level of executive remuneration. They could not mitigate the Type II agency conflict in Malaysian listed family companies via executive remuneration.

Similar to the cross-sectional multiple regression results reported in Table 6.3 for individual study period, the panel regression results in Table 6.9 show that institutional investors, both domestic (*DIS*) and foreign (*FIS*), play an ineffective role in governing executive remuneration in Malaysian listed family companies (p-value > 0.10, t-statistic = -1.14; p-value > 0.10, t-statistic = -0.55 respectively). This is inconsistent with the negative association reported by past studies which include non-family companies in the sample sets (Hartzell and Starks 2003; Ozkan 2007). Rather, the insignificant association is consistent with the findings of Lim and Yen (2011) that external block-holder does not have any significant influence on the executive

directors' salary in Malaysian companies. These findings indicate that the institutional investors are not a good corporate governance mechanism that the minority shareholders could rely on. The ineffectiveness of institutional investors may be due to their relatively low shareholdings and voting rights compared to the controlling family shareholders in Malaysian listed family companies. The institutional investors may simply sell their shares and exit the companies instead of monitoring the management because the monitoring cost involved may exceed the benefit of monitoring. Besides, they may face several impediments that hinder their ability to monitor, such as liquidity concerns, free rider problems, internal conflict of interest, and low client demand for engagement and intervention (Ivanova 2017; McCahery, Sautner and Starks 2016; CvijanoviĆ, Dasgupta and Zachariadis 2016). Further, they may lack knowledge and experience of how to effectively engage with the investee companies. The Malaysian Code for Institutional Investors which gives the guidance to institutional investors is introduced in 2014; prior to that, the institutional investors in Malaysian companies generally do not have any explicit guides. In addition, the institutional investors, such as insurance companies or mutual funds, may have business ties with the family companies. Voting against the management particularly concerning their remuneration packages would affect the existing or potential business relationships. To conclude, the institutional investors in Malaysian listed family companies do not provide circumspect monitoring on executive remuneration and could not mitigate the Type II agency conflict.

The *YEAR* dummy shows a positive and statistically significant association with the *LNEXREM* (p-value < 0.01, t-statistic = 6.1). This implies that the revised MCCG 2012 pertinent to restraining executive remuneration. In order words, the revised MCCG 2012 does not enhance the governance of remuneration policy of Malaysian listed family companies. The compliance of MCCG is merely a tick-box practice of family companies to fulfil the legislation.

With regard to the control variables, family ownership (*FO*) is statistically significant and positively associated with the *LNEXREM* (p-value < 0.05, t-statistic = 2.04), consistent with past findings (Haid and Yurtoglu 2006; Cheung, Stouraitis and Wong 2005). The significant influence of family ownership on executive remuneration

affirms the Type II agency conflict in Malaysian listed family firms. The insignificant influence of *FD* and *FCEO* but significant influence of *FO* implies that board directorship and CEO positions do not confer influential power to the controlling family to intervene in remuneration arrangement. Instead, the controlling family uses the concentrated ownership rights to influence the executive remuneration.

Board size (*BS*) is statistically significant and positively associated with *LNEXREM* (p-value < 0.01, t-statistic = 5.33). The finding is consistent with the past studies (Coakley and Iliopoulou 2006; Kashif and Mustafa 2012; Yatim 2013; Ozkan 2011; Ghosh and Sirmans 2005; Core, Holthausen and Larcker 1999). Firm size (*LNTA*) is statistically significant and positively associated with the *LNEXREM* (p-value < 0.01, t-statistic = 13.45), attesting that larger firm size is associated with greater complexities, therefore the executive directors receive a higher level of remuneration for the efforts exerted (Yatim 2013; Kashif and Mustafa 2012; Lim and Yen 2011; Ghosh 2006; Tosi et al. 2000; Hassan, Christopher and Evans 2003; Conyon 1997; Tosi and Gomez-Mejia 1994). Moreover, the statistically significant and negative association between firm leverage (*LEV*) and *LNEXREM* (p-value < 0.05, t-statistic = -1.73) is consistent with the past literature (Jensen 1989; Dong and Ozkan 2008; Yoshikawa, Rasheed and Brio 2010). The companies with a higher debt level are likely to have less free cash flow, and thus less likely to pay a higher level of remuneration. The statistically significant and positive association between *ROA(-1)* and *LNEXREM* (p-value < 0.10, t-statistic = 1.51) indicates that the executive remuneration is linked to the lagged firm performance. Moreover, the statistically significant and positive association (p-value < 0.01; t-statistic = 3.04) between *MV* and *LNEXREM* supports the past studies that the companies with higher growth opportunities reward their executives with a higher level of remuneration (Smith and Watts 1992; Conyon, Core and Guay 2011; Croci, Gonenc and Ozkan 2012; Fernandes et al. 2013). The positive associations of *LNEXREM* with *ROA(-1)* and *MV* indicate that Malaysian listed family firms comply with the recommendations of the revised MCCG 2012 to remunerate executive directors based on firm performance and growth opportunities, which reflect the long-term objectives.

6.5 Sensitivity Tests

Two sensitivity tests are conducted to provide robustness checks for the main panel regression results reported in the preceding section, which are cluster-robust standard errors estimation and REM estimation for the models with the inclusion of share option component in executive remuneration.

Firstly, Wooldridge test is conducted as a diagnostic check for the serial correlation. Its result is shown in Table 6.9. The p-value of 0.00, which is less than 0.05, indicates the presence of serial correlation in the panel regression model.

Table 6.9: Wooldridge test result

Null hypothesis:	No first-order autocorrelation
F(1, 278):	14.364
p-value:	0.00

Despite this, according to Baltagi (2014) and Torres-Reyna (2007b), serial correlation is not a major problem in micro panel where N>T. In order to validate and ascertain the results of REM estimation, cluster-robust standard errors estimation is performed. Cluster-robust standard errors estimation can solve the heteroskedasticity and serial correlation problems existed in the REM estimation (Baltagi 2005; Torres-Reyna 2007b; Schmidheiny 2016). Table 6.10 shows the REM results using cluster-robust standard errors estimation. The overall R^2 of the regression model is 37.20%, which is identical to the main REM reported in Table 6.8, whilst the wald chi(2) of the model is 272.52 (p-value < 0.01).

The REM results using cluster-robust standard errors estimation are similar to the main REM results reported in Table 6.8. The p-value of *ID* in the main REM is 0.10 (as reported in Table 6.8), at the verge of becoming insignificant. The REM using cluster-robust standard errors estimation shows that it is insignificant (p-value > 0.10). This finding affirms the ineffectiveness of independent non-executive directors in governing executive remuneration in Malaysian listed family companies. The summary of the results of the main REM estimation and cluster-robust standard errors estimation is presented in Appendix 6.1.

Table 6.10: REM results using cluster-robust standard errors estimation

Variables	Coefficient	t-statistic	p-value
FD	0.1780	0.62	0.27
FCEO	0.0768	0.68	0.25
ID	-0.2794	-0.90	0.18
IDT	-0.0009	-0.18	0.43
RD	0.0777	1.56	0.06*
IDRC	0.0244	0.24	0.41
DIS	-0.2939	-1.18	0.12
FIS	-0.2163	-0.62	0.27
YEAR	0.1180	5.28	0.00***
FO	0.4846	1.65	0.05**
BS	0.0748	4.64	0.00***
LNTA	0.4158	11.53	0.00***
LEV	-0.2117	-1.37	0.09*
ROA(-1)	0.0031	1.26	0.10*
MV	0.0655	2.77	0.00***
_cons	8.2556	15.57	0.00***
Overall R^2	0.3720		
Wald chi2(15)	272.52***		
No. of companies	279		
No. of observation	1395		

Legend: Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

In addition, pooled OLS and FEM are conducted so as to compare with the REM results. The results generated by different regression estimators are summarised in Appendix 6.1. All of these models report near similar R^2. To sum up, the rejection of the null hypotheses of F test and Breusch-Pagan Lagrange Multiplier test indicate the presence of individual specific effects; pooled OLS is not the most efficient estimator. Subsequently, Hausman specific test is conducted to choose between FEM and REM. The null hypothesis of Hausman specific test is not rejected, indicating that REM is the most efficient estimator for this study.

Secondly, one of the limitations of this study is the exclusion of share option from the measurement of executive remuneration due to the non-disclosure of this information in the annual reports of Malaysian listed companies. In order to address this limitation, this study conducts sensitivity test by including the share option component in executive remuneration. It is assumed that the inclusion of share option will increase executive remuneration by 10%, 20%, 30%, 40%, or 50%. Table 6.11 shows the REM results for this sensitivity test. Panels (a) to (e) show the results of REM model where

the executive remuneration (*EXREM*) is increased by 10%, 20%, 30%, 40%, and 50% respectively. The REM results of all of the panels in Table 6.11 are identical to the main REM results reported in Table 6.8, with the overall R^2 of 37.20% and waldchi2(15) of 413.01 (p-value < 0.01).

Table 6.11: REM results for sensitivity test

Panel	(a)	(b)	(c)	(d)	(e)
	EXREM + 10%	*EXREM* + 20%	*EXREM* + 30%	*EXREM* + 40%	*EXREM* + 50%
FD	**0.1780**	**0.1780**	**0.1780**	**0.1780**	**0.1780**
	0.81	*0.81*	*0.81*	*0.81*	*0.81*
	(0.21)	(0.21)	(0.21)	(0.21)	(0.21)
FCEO	**0.0768**	**0.0768**	**0.0768**	**0.0768**	**0.0768**
	1.04	*1.04*	*1.04*	*1.04*	*1.04*
	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
ID	**-0.2794**	**-0.2794**	**-0.2794**	**-0.2794**	**-0.2794**
	-1.28	*-1.28*	*-1.28*	*-1.28*	*-1.28*
	(0.10*)	(0.10*)	(0.10*)	(0.10*)	(0.10*)
IDT	**-0.0009**	**-0.0009**	**-0.0009**	**-0.0009**	**-0.0009**
	-0.18	*-0.18*	*-0.18*	*-0.18*	*-0.18*
	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)
RD	**0.0777**	**0.0777**	**0.0777**	**0.0777**	**0.0777**
	1.51	*1.51*	*1.51*	*1.51*	*1.51*
	(0.07*)	(0.07*)	(0.07*)	(0.07*)	(0.07*)
IDRC	**0.0244**	**0.0244**	**0.0244**	**0.0244**	**0.0244**
	0.23	*0.23*	*0.23*	*0.23*	*0.23*
	(0.41)	(0.41)	(0.41)	(0.41)	(0.41)
DIS	**-0.2939**	**-0.2939**	**-0.2939**	**-0.2939**	**-0.2939**
	-1.14	*-1.14*	*-1.14*	*-1.14*	*-1.14*
	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)
FIS	**-0.2163**	**-0.2163**	**-0.2163**	**-0.2163**	**-0.2163**
	-0.55	*-0.55*	*-0.55*	*-0.55*	*-0.55*
	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)
YEAR	**0.1180**	**0.1180**	**0.1180**	**0.1180**	**0.1180**
	6.10	*6.10*	*6.10*	*6.10*	*6.10*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
FO	**0.4846**	**0.4846**	**0.4846**	**0.4846**	**0.4846**
	2.04	*2.04*	*2.04*	*2.04*	*2.04*
	(0.02**)	(0.02**)	(0.02**)	(0.02**)	(0.02**)
BS	**0.0748**	**0.0748**	**0.0748**	**0.0748**	**0.0748**
	5.33	*5.33*	*5.33*	*5.33*	*5.33*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
LNTA	**0.4158**	**0.4158**	**0.4158**	**0.4158**	**0.4158**
	13.45	*13.45*	*13.45*	*13.45*	*13.45*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
LEV	**-0.2117**	**-0.2117**	**-0.2117**	**-0.2117**	**-0.2117**
	-1.73	*-1.73*	*-1.73*	*-1.73*	*-1.73*

	(0.04**)	(0.04**)	(0.04**)	(0.04**)	(0.04**)
ROA(-1)	**0.0031**	**0.0031**	**0.0031**	**0.0031**	**0.0031**
	1.51	*1.51*	*1.51*	*1.51*	*1.51*
	(0.07*)	(0.07*)	(0.07*)	(0.07*)	(0.07*)
MV	**0.0655**	**0.0655**	**0.0655**	**0.0655**	**0.0655**
	3.04	*3.04*	*3.04*	*3.04*	*3.04*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
_cons	**8.3509**	**8.4379**	**8.5179**	**8.5920**	**8.6610**
	19.78	*19.99*	*20.18*	*20.35*	*20.52*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
Overall R^2	0.3720	0.3720	0.3720	0.3720	0.3720
Wald chi2(15)	413.01***	413.01***	413.01***	413.01***	413.01***
No. of companies	279	279	279	279	279
No. of observations	1395	1395	1395	1395	1395

Legend: Coefficient is bold. t-statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

In a nutshell, the sensitivity tests, which are cluster-robust standard errors estimation, and REM estimation for the models with the inclusion of share option component in executive remuneration, ascertain the robustness of the main REM results reported in Table 6.8.

6.6 Endogeneity Test

The presence of endogeneity will cause the estimates to be biased. The sources of endogeneity include model specification error and simultaneity, which is known as reverse causality (Wooldridge 2013).

According to Torres-Reyna (2007a), linktest can assess the model specification.

Table 6.12: linktest result

Null hypothesis:	There is no model specification error
_hatsq:	0.04
p-value:	0.24

Table 6.12 shows the result of linktest. The p-value of 0.24, which is more than 0.05, indicates that the null hypothesis is not rejected. In other words, the model of this study is correctly specified.

In order to investigate the possibility of simultaneity (reverse causality) between executive remuneration and institutional ownership, this study adopts the way of Hartzell and Starks (2003) to examine whether lagged executive remuneration would predict the subsequent institutional shareholdings – domestic (*DIS*), foreign (*FIS*), and total (*IS*). The natural logarithm of lagged executive remuneration (*LNEXREM(-1)*) is used as the independent variable for all of the bivariate regression models. The following bivariate regression models are used:

$$DIS_{it} = \beta_0 + \beta_1 LNEXREM(-1)_{it} + \varepsilon_{it}$$
$$FIS_{it} = \beta_0 + \beta_1 LNEXREM(-1)_{it} + \varepsilon_{it}$$
$$IS_{it} = \beta_0 + \beta_1 LNEXREM(-1)_{it} + \varepsilon_{it}$$

Breush-Pagan Lagrange Multiplier test and Hausman specific test are conducted to determine the most efficient estimator (pooled OLS, FEM or REM) for each bivariate regression model stated above.

Table 6.13 shows the results of Breush-Pagan Lagrange Multiplier test for each model. There is the presence of individual specific effects (p-value < 0.05) for each bivariate model.

Table 6.13 Breush-Pagan Lagrange Multiplier test for each bivariate model

Dependent variable	*DIS*	*FIS*	*IS*
chi2(1)	1387.73	1424.99	1433.05
p-value	0.00	0.00	0.00

Hausman specific test is conducted to choose between FEM and REM for each model. Table 6.14 shows the results of Hausman specific test. REM is chosen for bivariate model using *DIS* as the dependent variable (p-value > 0.05); FEM is chosen for the bivariate model using *FIS* as the dependent variable (p-value < 0.05); FEM is chosen for the bivariate model using *IS* as the independent variable (p-value < 0.05).

Table 6.14: Hausman specific test for each bivariate model

Dependent variable	*DIS*	*FIS*	*IS*
chi2(1):	3.82	6.81	10.14
p-value:	0.06	0.01	0.00
Efficient estimator	REM	FEM	FEM

Table 6.15 shows the bivariate regression result for each model. There is an insignificant association (p-value > 0.10) between the lagged executive remuneration and the institutional shareholdings – *DIS*, *FIS* and *IS*. Succinctly, the simultaneity or reverse causality between executive remuneration and institutional shareholdings are not identified in this study.

Table 6.15: Simultaneity test

Dependent variable	**Estimator**	**Coefficient of** *LNEXREM(-1)*
DIS	REM	**0.0007** *0.25* (0.40)
FIS	FEM	**0.0037** *0.28* (0.35)
IS	FEM	**0.0020** *0.63* (0.26)

Legend: Coefficient is bold; t-statistic is italicised; p-value is in the parentheses.

Based on the results of the linktest and simultaneity test, endogeneity problem is not a major concern in this study. Listokin (2008) document that FEM can be used as a cure to mitigate endogeneity. Appendix 6.1 shows that the regression results and the R^2 of FEM are similar to the REM reported in section 6.4. In addition, this study uses subsample estimates to address the potential endogeneity problem (Listokin 2008). The analysis and discussions of subsample estimates are presented in the next chapter.

6.7 Summary

This chapter presents and discusses the multivariate analysis using multiple regression model. Multiple regression model is run separately for each year (from 2010 to 2014) and also for the panel data of five years using REM with GLS estimation. Table 6.16 shows the summary of REM results.

Table 6.16: Summary of REM results

Variable	Hypothesis	Hypothesised association with executive remuneration	Result	Decision
FD	H_1	Positive	Insignificant	Not supported
FCEO	H_2	Positive	Insignificant	Not supported
ID	H_3	Negative	Negative	Supported
IDT	H_4	Positive	Insignificant	Not supported
RD	H_5	Positive	Positive	Supported
IDRC	H_6	Negative	Insignificant	Not supported
DIS	H_7	Negative	Insignificant	Not supported
FIS	H_8	Negative	Insignificant	Not supported
YEAR	H_9	Negative	Positive	Not supported
FO			Positive	
BS			Positive	
LNTA			Positive	
LEV			Negative	
ROA(-1)			Positive	
MV			Positive	

In summary, the family directors and CEOs are not associated with executive remuneration, indicating that the family members (of controlling shareholders) on board do not exacerbate the Type II agency conflict in Malaysian listed family companies. The independent non-executive directors are able to rein in executive remuneration; suggesting that they are potentially one of the mechanisms that the minority shareholders could rely on to mitigate the Type II agency conflict in Malaysian listed family companies. Nonetheless, their influence is weak. The average tenure of independent non-executive directors is not associated with executive remuneration. The CEO-chairman role duality is positively associated with executive remuneration; such structure erodes the board governance and autonomy. The remuneration committees of Malaysian listed family companies play a tokenism role in setting executive remuneration. Likewise, the institutional investors, both domestic and foreign, do not play an effective role in monitoring executive remuneration in Malaysian listed family companies. The revised MCCG 2012 could not restrain the executive remuneration of family companies. The executive remuneration is positively associated with the concentrated family ownership, firm size, board size, lagged firm performance, and growth opportunities; and negatively associated with the firm leverage.

Additional analyses which segregate the overall sample into different subsample sets (subsample estimates) are conducted to validate the multiple regression results and provide a cure for the possible endogeneity problem in this study. The additional analyses also provide further insights into the influence of family participation on board, corporate governance mechanisms, and institutional ownership on executive remuneration in Malaysian listed family companies. Chapter Seven presents and discusses the additional analyses.

CHAPTER SEVEN: ADDITIONAL ANALYSES

7.0 Introduction

This chapter undertakes additional analyses to provide a series of robustness checks of the results in the preceding chapter and yield more insights into the determinants of executive remuneration in Malaysian listed family companies. Besides, the additional analyses which entail the subsample estimates may address the potential endogeneity problem. Section 7.1 examines the association between executive remuneration and explanatory variables for different industry sectors. Section 7.2 provides further analysis to test the association between executive remuneration and explanatory variables under two conditions: (i) companies with family CEO; and (ii) companies with non-family CEO. Section 7.3 involves running the multiple regression model specifically for family companies that have institutional ownership, and also combines the shareholdings of both domestic and foreign institutional investors to examine the collective influence of the total institutional ownership on executive remuneration. Section 7.4 analyses the factors influencing executive remuneration at various levels of family ownership. Section 7.5 further examines the influence of the tenure of independent non-executive directors on executive remuneration. Section 7.6 examines the interaction effects between the variables.

7.1 Different Industry Sectors

The REM is run separately for different industry sectors[48]: properties, industrial products, construction, consumer products, trading/services, and plantation sectors. These additional analyses provide insights into the influence of family participation on board, corporate governance mechanisms, and institutional ownership on the executive remuneration across different industry sectors. Table 7.1 shows the REM results for each industry sector. The findings highlight that industry heterogeneity has an impact on the factors influencing the executive remuneration of Malaysian listed family companies.

[48] REM is not conducted for technology, hotels, and infrastructure project sectors because there are only a few sample companies in these sectors.

Table 7.1: REM results for each industry sector

Panel	(a)	(b)	(c)	(d)	(e)	(f)
	Properties	**Industrial products**	**Construction**	**Consumer products**	**Trading/services**	**Plantation**
FD	**-0.6493**	**1.0217**	**0.5281**	**-0.4465**	**-0.6600**	**-0.2412**
	-0.79	*2.97*	*0.58*	*-0.93*	*-1.54*	*-0.22*
	(0.22)	(0.00***)	(0.28)	(0.18)	(0.06*)	(0.41)
FCEO	**0.0697**	**-0.0136**	**0.1952**	**0.7040**	**-0.0530**	**0.1513**
	0.31	*-0.11*	*0.39*	*2.85*	*-0.49*	*0.68*
	(0.38)	(0.46)	(0.35)	(0.00***)	(0.31)	(0.25)
ID	**-0.8990**	**0.6730**	**0.1101**	**-0.7406**	**-0.7163**	**-0.6848**
	-0.94	*2.05*	*0.09*	*-1.57*	*-1.73*	*-0.58*
	(0.17)	(0.02**)	(0.46)	(0.06*)	(0.04**)	(0.28)
IDT	**0.0007**	**0.0031**	**-0.0123**	**-0.0054**	**0.0183**	**-0.0098**
	0.04	*0.35*	*-0.69*	*-0.53*	*1.88*	*-0.85*
	(0.46)	(0.36)	(0.25)	(0.30)	(0.03**)	(0.20)
RD	**0.3397**	**0.0437**	**0.2114**	**-0.0906**	**-0.0067**	**0.4383**
	1.37	*0.58*	*1.14*	*-0.63*	*-0.08*	*2.08*
	(0.09*)	(0.28)	(0.13)	(0.26)	(0.47)	(0.02**)
IDRC	**0.6073**	**-0.1250**	**-0.4595**	**0.0693**	**0.1956**	**0.4410**
	1.36	*-0.77*	*-1.54*	*0.32*	*0.82*	*1.15*
	(0.09*)	(0.22)	(0.06*)	(0.37)	(0.20)	(0.13)
DIS	**0.7645**	**-0.3177**	**-0.0888**	**0.7104**	**-1.0078**	**0.5070**
	0.77	*-0.74*	*-0.08*	*1.15*	*-2.35*	*0.65*
	(0.22)	(0.23)	(0.47)	(0.13)	(0.01***)	(0.26)
FIS	**-0.3502**	**-0.6101**	**-0.5523**	**1.4737**	**-0.4972**	**0.4884**
	-0.27	*-0.80*	*-0.15*	*1.56*	*-0.95*	*0.36*
	(0.40)	(0.21)	(0.44)	(0.06*)	(0.17)	(0.36)

YEAR	**0.2410**	**0.0937**	**0.1335**	**0.0897**	**0.0279**	**0.0526**
	2.37	*2.73***	*1.77*	*2.15*	*0.88*	*1.00*
	(0.01***)	(0.00***)	(0.04**)	(0.02**)	(0.19)	(0.16)
FO	**-0.8988**	**0.3676**	**0.8432**	**1.7114**	**-0.5861**	**1.2333**
	-1.05	*1.02*	*0.9*	*3.63*	*-1.23*	*1.24*
	(0.15)	(0.15)	(0.18)	(0.00***)	(0.11)	(0.11)
BS	**0.1386**	**0.0605**	**0.1096**	**0.0901**	**-0.0277**	**-0.0189**
	2.50	*2.56*	*1.6*	*3.1*	*-1.19*	*-0.33*
	(0.01***)	(0.01***)	(0.06**)	(0.00***)	(0.12)	(0.37)
LNTA	**0.6730**	**0.4321**	**0.5008**	**0.4212**	**0.1966**	**0.3764**
	4.81	*8.15*	*2.97*	*5.9*	*3.07*	*5.39*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
LEV	**-0.1992**	**-0.5035**	**0.2568**	**-0.6031**	**0.0363**	**0.4300**
	-0.33	*-2.2*	*0.54*	*-2.09*	*0.22*	*1.38*
	(0.37)	(0.01***)	(0.30)	(0.02**)	(0.41)	(0.08*)
ROA(-1)	**0.0052**	**-0.0003**	**0.0109**	**0.0037**	**0.0007**	**0.0110**
	0.47	*-0.09*	*1.01*	*1.12*	*0.23*	*1.69*
	(0.32)	(0.47)	(0.16)	(0.13)	(0.41)	(0.05**)
MV	**0.0034**	**0.0726**	**0.0307**	**0.0158**	**0.0382**	**0.0834**
	0.02	*2.12*	*0.27*	*0.29*	*1.16*	*1.55*
	(0.49)	(0.02**)	(0.40)	(0.38)	(0.12)	(0.06*)
_cons	**4.8286**	**7.8272**	**6.2702**	**7.4161**	**12.7260**	**8.7321**
	2.62	*11.71*	*3.07*	*7.46*	*13.9*	*5.56*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
Overall R^2	0.4506	0.4286	0.6468	0.3501	0.1476	0.7143
Wald chi2(15)	82.3***	150.85***	72.51***	131.11***	32.87***	70.56***
No. of companies	36	95	18	60	47	17

No. of observations	180	475	90	300	235	85

Legend: Coefficient is bold. t-statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

Table 7.1 panel (a) reports the REM results for the properties sector with an overall R^2 of 45.06%. The *RD* is found to have a statistically significant and positive association (p-value < 0.10, t-statistic = 1.37) with the *LNEXREM*. The finding indicates that the CEO-chairman role duality structure erodes the board governance and enables the CEO to intervene in the determination of executive remuneration. Besides, there is a statistically significant and positive association (p-value < 0.10, t-statistic = 1.36) between the *IDRC* and *LNEXREM*. This finding is contrary to the hypothesised negative association of H_6. This finding is similar to Sapp (2008) reporting that the higher the proportion of independent non-executive directors on remuneration committee, the higher the level of CEO remuneration of Canadian public listed companies. The independent non-executive directors on remuneration committee may have been captured by the management, particularly the controlling shareholders and family directors, hence they play an ineffective role in governing remuneration arrangement. Instead of governing, the 'not so independent' independent non-executive directors on remuneration committee have the possibility to inflate the executive remuneration in order to please the executive directors so that they could be re-elected and continue to collect fee. This finding suggests that the definition of 'independent' need to be revisited. The other independent variables, which are *FD*, *FCEO*, *ID*, *IDT*, *DIS*, and *FIS*, do not show any statistically significant associations with executive remuneration in properties sector.

Table 7.1 panel (b) reports the REM results for the industrial products sector with an overall R^2 of 42.86%. The *FD* shows a statistically significant and positive association (p-value < 0.01, t-statistic = 2.97) with the *LNEXREM*. This finding implies that the controlling shareholders and their family members use the board directorship or managerial power to influence the remuneration arrangement. This indicates the evidence of the family entrenchment and Type II agency conflict in the industrial products sector. Contrary to the hypothesised negative association of H_3, the *ID* is reported to have statistically significant and positive association (p-value < 0.05, t-statistic = 2.05) with the *LNEXREM*. This finding is not consistent with the past findings of negative association (Ghosh 2006; Abdullah 2006; Lim and Yen 2011; Yatim 2013). Essentially, this finding casts doubt pertaining to the independence role of independent non-executive directors. The governance role of the independent non-

executive directors in industrial products sector may have been attenuated by the entrenched family directors. The former may find it hard to challenge the latter, particularly concerning their remuneration packages. Of importance, the finding highlights that the independent non-executive directors in industrial products sector are in allegiance to the family directors and exacerbate the Type II agency conflict. The other independent variables, which are *FCEO*, *IDT*, *RD*, *IDRC*, *DIS*, and *FIS*, do not show any statistically significant associations with executive remuneration in industrial products sector.

Table 7.1 panel (c) reports the REM results for the construction sector with an overall R^2 of 64.68%. There is a statistically significant and negative association (p-value < 0.10, t-statistic = -1.54) between the *IDRC* and *LNEXREM*. Construction sector is the only sector that shows the effectiveness of the remuneration committee in governing executive remuneration. The other independent variables, namely *FD*, *FCEO*, *ID*, *IDT*, *RD*, *DIS*, and *FIS*, do not show any statistically significant associations with executive remuneration in construction sector.

Table 7.1 panel (d) reports the REM results for the consumer products sector with an overall R^2 of 35.01%. There is a statistically significant and positive association (p-value <0.01, t-statistic = 2.85) between the *FCEO* and *LNEXREM*. This indicates the family entrenchment via CEO position in the consumer products sector. The entrenched family CEOs exert a significant influence on the remuneration arrangement and exacerbate the Type II agency conflict. On the other hand, the *ID* shows a statistically significant and negative association (p-value < 0.10, t-statistic = -1.57) with the executive remuneration. This suggests that the *ID* in consumer products sector are able to restrain the remuneration level, however the influence is weak. The governing function of the *ID* may have been counterbalanced by the entrenched family CEOs. In contrast to the hypothesised negative association of H_8, the *FIS* is reported to have statistically significant and positive association (p-value < 0.10, t-statistic = 1.56) with the *LNEXREM*. The possible interpretation is that, when there is more investment from foreign institutions, the executive directors put in more time and effort to deal with the increasing expectations and demands of different foreign institutional investors and thus, they are paid more for the extra effort exerted. The

positive influence of the *FIS* is consistent with the past findings that more internationalised companies offer a higher level of remuneration (Croci, Gonenc and Ozkan 2012; Fernandes et al. 2013). The other independent variables, which are *FD*, *IDT*, *RD*, *DIS*, and *FIS*, do not show any statistically significant associations with executive remuneration in the construction sector.

Table 7.1 panel (e) reports the REM results for the trading/services sector with an overall R^2 of 14.76%. Contrary to the hypothesised positive association of H_1, the *FD* shows a statistically significant and negative association (p-value < 0.10, t-statistic = -1.54) with the *LNEXREM*. The negative association supports the findings of Sapp (2008) and Combs et al. (2010) that family directors on board provide a source of monitoring on CEO remuneration in the context of Canada and the United States respectively. This finding suggests that the *FD* in trading/services sectors play a governing role. Instead of exacerbating, they ameliorate the Type II agency conflict via executive remuneration. In addition, the *ID* is found to exert a significant negative influence on the *LNEXREM* (p-value < 0.05, t-statistic = -1.73), indicating the effectiveness of independent non-executive directors in governing executive remuneration in trading/services sector. Nonetheless, the *IDT* shows a statistically significant and positive association (p-value < 0.05, t-statistic = 1.88) with the *LNEXREM*. This indicates that the longer the average tenure of independent non-executive directors, the higher the level of executive remuneration. The long-tenured independent non-executive directors may have developed friendly relationships with the executive directors, hence their independence role is compromised. Further, the *DIS* is reported to have a negative and statistically significant association (p-value < 0.05, t-statistics = -2.35) with the *LNEXREM*. This indicates that the domestic institutional investors play an effective disciplinary role in monitoring the remuneration arrangement. They are potentially a good representation of the minority shareholders in trading/services sector. The negative influence of *DIS* supports the past studies (Hartzell and Starks 2003; Ozkan 2007). The other independent variables, which are *FCEO*, *RD*, *IDRC*, and *FIS*, do not show any statistically significant associations with executive remuneration in the trading/services sector. The negative influence of *DIS* but insignificant influence of *FIS* suggest that the governing role of

domestic institutional investors prevail that of foreign counterparts in the trading/services sector.

Table 7.1 panel (f) reports the REM results for the plantation sectors with an overall R^2 of 71.43%. The *RD* is found to have statistically significant and positive association (p-value < 0.05, t-statistic = 2.08) with the *LNEXREM*. This finding is similar to the positive influence of *RD* on *LNEXREM* in the properties sector, as reported in panel (a). The CEO-chairman role duality compromises the board autonomy in governing executive remuneration.

In a nutshell, different independent variables (*FD*, *FCEO*, *ID*, *IDT*, *RD*, *IDRC*, *DIS*, and *FIS*) exert different influence on the executive remuneration across different industry sectors at different significance levels. Of importance, these additional analyses point out that the effectiveness of different governance mechanisms vary due to the industry heterogeneity.

To reiterate, the controlling shareholders and their family members of the companies in the industrial products sector use their board directorship (*FD*) to intervene in and inflate the executive remuneration; nonetheless, the family directors (*FD*) in the trading/services sector play a disciplinary function in curbing executive remuneration. Family CEOs (*FCEO*) is reported to have a significant influence on executive remuneration in the consumer products sector only.

The independent non-executive directors (*ID*) play an effective role in reining in executive remuneration in the consumer products and trading/services sectors. However, the independent non-executive directors in the industrial products sector show a positive and statistically significant association with executive remuneration. The average tenure of independent non-executive directors (*IDT*) is reported to have positive association with executive remuneration in the trading/services sector only. Further, CEO-chairman role duality (*RD*) shows a positive and statistically association with executive remuneration in the properties and plantation sectors. Except in the construction sector, little empirical evidence is found to support the notion that the

remuneration committee (*IDRC*) can be an extension of corporate governance that tailors executive remuneration to the benefit of overall shareholders.

In general, the domestic (*DIS*) and foreign institutional investors (*FIS*) do not have any significant influence on the executive remuneration, except those in the trading/services and consumer products sectors.

The revised MCCG 2012 (*YEAR*) does not enhance the governance of remuneration policy and could not rein in executive remuneration of listed family companies in all of the industry sectors.

Table 7.2 summarises the REM results for each industry sector.

Table 7.2 Summary of REM results for each industry sector

Variable	Hypothesised association	Properties	Industrial products	Construction	Consumer products	Trading/ services	Plantation
FD	Positive	Insignificant/ Not supported	Positive/ Supported	Insignificant/ Not supported	Insignificant/ Not supported	Negative/ Not supported	Insignificant/ Not supported
FCEO	Positive	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Positive/ Supported	Insignificant/ Not supported	Insignificant/ Not supported
ID	Negative	Insignificant/ Not supported	Positive/ Not supported	Insignificant/ Not supported	Negative/ Supported	Negative/ Supported	Insignificant/ Not supported
IDT	Positive	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Positive/ Supported	Insignificant/ Not supported
RD	Positive	Positive/ Supported	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Positive/ Supported
IDRC	Negative	Positive/ Not supported	Insignificant/ Not supported	Negative/ Supported	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported
DIS	Negative	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Negative/ Supported	Insignificant/ Not supported
FIS	Negative	Insignificant/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported	Positive/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported
YEAR	Negative	Positive/ Not supported	Positive/ Not supported	Positive/ Not supported	Positive/ Not supported	Insignificant/ Not supported	Insignificant/ Not supported
FO		Insignificant	Insignificant	Insignificant	Positive	Insignificant	Insignificant
BS		Positive	Positive	Positive	Positive	Insignificant	Insignificant
LNTA		Positive	Positive	Positive	Positive	Positive	Positive
LEV		Insignificant	Negative	Positive	Negative	Insignificant	Negative

ROA(-1)		Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Positive
MV		Insignificant	Positive	Insignificant	Insignificant	Insignificant	Positive

7.2 Family CEO and Non-Family CEO

The sample is segregated into two subsample sets: (a) companies with family CEO, and (b) companies with non-family CEO. This sheds light on the association between different variables and executive remuneration when the management is led by family CEO (or non-family CEO). Table 7.3 shows the REM results for the two subsample sets with the overall R^2 of 36.33% and 54.75% respectively.

Table 7.3: REM results for: (a) companies with family CEO, and (b) companies with non-family CEO

Panel	(a)	(b)
	Companies with family CEO	**Companies with non-family CEO**
FD	**0.2564**	**-0.8777**
	1.13	*-0.95*
	(0.13)	(0.17)
ID	**-0.1098**	**-1.1293**
	-0.49	*-1.39*
	(0.31)	(0.08*)
IDT	**-0.0010**	**0.0414**
	-0.19	*1.6*
	(0.42)	(0.06*)
RD	**0.0812**	**0.7805**
	1.53	*1.62*
	(0.06*)	(0.05**)
IDRC	**-0.0544**	**0.5088**
	-0.51	*1.21*
	(0.30)	(0.11)
DIS	**-0.2086**	**-0.5023**
	-0.79	*-0.53*
	(0.21)	(0.30)
FIS	**-0.1202**	**-1.3906**
	-0.28	*-1.25*
	(0.39)	(0.10*)
YEAR	**0.1234**	**0.1280**
	6.27	*1.57*
	(0.00***)	(0.06*)
FO	**0.6517**	**-0.2389**
	2.69	*-0.27*
	(0.00***)	(0.39)
BS	**0.0680**	**0.1382**
	4.67	*2.66*
	(0.00***)	(0.00***)
LNTA	**0.4011**	**0.3696**
	12.54	*3.29***
	(0.00***)	(0.00***)

LEV	**-0.1644**	**0.1299**
	-1.34	*0.22*
	(0.09*)	(0.41)
ROA(-1)	**0.0018**	**0.0249**
	0.91	*2.11*
	(0.18)	(0.02**)
MV	**0.0565**	**0.1700**
	2.61	*1.57*
	(0.00***)	(0.06*)
_cons	**8.4283**	**8.4304**
	19.6	5.39
	(0.00***)	(0.00***)
Overall R^2	0.3633	0.5475
Wald chi2(14)	370.08***	59.39***
No. of companies	261	36
No. of observations	1266	129

Legend: Coefficient is bold. t-statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

Panel (b) of Table 7.3 reports that when the CEOs are non-family directors, the *ID* shows a statistically significant and negative association (p-value < 0.10, t-statistic = 1.39) with the *LNEXREM*, but statistically insignificant association (p-value > 0.10, t-statistic = -0.49) when the CEOs are family directors, as reported in panel (a). The findings suggest that the independent non-executive directors are able to effectively govern and rein in executive remuneration when the CEOs have no kinship with the controlling shareholders. Succinctly, the board independence is compromised when the CEO is related to the controlling family shareholders. The independent non-executive directors play a passive role when the management is led by family CEO.

Moreover, panel (b) reports a statistically significant and positive association (p-value < 0.10, t-statistic = 1.6) between the *IDT* and *LNEXREM*; the longer the average tenure of independent non-executive directors, the higher the executive remuneration. The independent non-executive directors may have built friendly relationships with the executive directors over a long serving period; thus, their governing role is conceded and ineffective.

Both panels (a) and (b) report that the *RD* is positively associated with the *LNEXREM* regardless the CEOs are family directors (p-value < 0.10, t-statistic = 1.53) or non-family directors (p-value < 0.05, t statistic = 1.62). Essentially, the findings highlight that CEO-chairman role duality structure is detrimental to the board autonomy and governance. The CEOs would use the highly symbolic position of board chairmen to intervene in the remuneration design whether or not they are related to the controlling shareholders. When the positions of CEO and board chairman are both held by an individual, there is no person with formal autonomy and authority to challenge his/her decisions and actions.

The *FIS* shows a statistically significant and negative influence on the *LNEXREM* (p-value 0.10, t-statistic = -1.25) when the CEOs have no family relationships with the controlling shareholders, as reported in panel (b). The influence of the controlling shareholders on executive remuneration is diluted when the CEOs are not related to them; hence, the foreign institutional investors are able to voice on the remuneration arrangement and exert a governing function. The significant *FIS* but insignificant *DIS* suggest that the role of foreign institutional investors prevail that of the domestic institutional investors in monitoring executive remuneration. The findings support Aggarwal et al. (2011) arguing that in the countries with weak investor protection, the main role in improving governance is played by the foreign institutional investors, rather than the domestic institutional investors. Of importance, the findings highlight the different governing roles of institutional investors due to the nationality heterogeneity, in the case of non-family CEOs in Malaysian listed family companies.

Family ownership (*FO*) shows a positive and statistically significant association (p-value < 0.01, t-statistic = 2.96) with the *LNEXREM* when the CEOs are family directors, as reported in panel (a); but insignificant association (p-value > 0.10, t-statistic = -0.27) when the CEOs are non-family directors, as reported in panel (b). These findings suggest that the controlling shareholders expropriate minority shareholders via executive remuneration only when the CEOs are related to them. The control of the controlling shareholders over the remuneration design is diluted when the CEOs have no kinship with them. In short, the concentrated ownership alone does not empower the family to intervene in executive remuneration. The family has to

combine the concentrated ownership and structural position of CEO to influence the remuneration arrangement. Of essence, these findings provide theoretical implication by asserting that the Type II agency conflict via executive remuneration in family companies is ameliorated when the CEOs have no family relationships with the controlling shareholders. The interaction effect between family ownership and family CEO is further examined and discussed in section 7.6.

Furthermore, panel (a) shows that the executive remuneration is not associated with the *ROA(-1)* (p-value > 0.10, t-statistic = 0.91) when the CEOs are family directors; on the other hand, panel (b) shows a positive and statistically signification association (p-value < 0.05, t-statistic = 2.11) with the *ROA(-1)* when the CEOs are non-family directors. These findings suggest family opportunism; the entrenched family CEOs interfere the remuneration arrangement – executive remuneration is not directly linked to the lagged firm performance.

Notwithstanding this, the *LNEXREM* is associated with the *MV* at 0.01 significance level when CEOs are family directors; on the other hand, at 0.10 significance level when CEOs are non-family directors. These findings suggests that family CEOs prefer to remunerate the executive directors based on growth opportunities (*MV*) which reflects the long term horizon, rather than short term firm performance (*ROA(-1)*). In contrast, the non-family CEOs prefer to remunerate the executive directors based on the short term firm performance because long term objectives may not be their major concern.

7.3 Institutional Ownership

During the data collection, it is noted that some of the Malaysian listed family companies do not have institutional ownership. There is a genuine concern that the multiple regression results of domestic institutional shareholdings (*dis*) and foreign institutional shareholdings (*fis*) may be generalised or weakened by those companies without institutional ownership. Hence, additional analyses are conducted specifically for the sample companies that have institutional ownership. Table 7.4 shows the REM results for three subsample sets: (a) observations with *dis*, (b) observations with *fis*, and (c) observations with both DIS and *fis*, with the overall R^2 of 36.68%, 34.89%,

and 34.06% respectively. The models are significant with the wald chi(2) of 411.56 (p-value < 0.01), 291.84 (p-value < 0.01) and 288.81 (p-value <0.01) respectively.

Table 7.4: REM results for: (a) observations with *dis*, (b) observations with *fis*, and (c) observations with both DIS and *fis*

Panel	(a)	(b)	(c)
	Observations with *dis*	**Observations with *fis***	**Observations with both DIS and *fis***
FD	**-0.0859**	**-0.0423**	**-0.1204**
	-0.39	*-0.15*	*-0.41*
	(0.35)	(0.44)	(0.34)
FCEO	**0.0861**	**0.1544**	**0.1577**
	1.21	*1.05*	*1.08*
	(0.11)	(0.18)	(0.19)
ID	**-0.4829**	**-0.4183**	**-0.4834**
	-2.18	*-1.58*	*-1.74*
	(0.01***)	(0.06*)	(0.04**)
IDT	**-0.0024**	**-0.0058**	**-0.0076**
	-0.48	*-0.99*	*-1.26*
	(0.30)	(0.16)	(0.10*)
RD	**0.0659**	**0.0537**	**0.0484**
	1.23	*0.83*	*0.72*
	(0.11)	(0.20)	(0.23)
IDRC	**0.0706**	**0.0733**	**0.1038**
	0.69	*0.56*	*0.79*
	(0.25)	(0.29)	(0.22)
DIS	**-0.4422**	**-0.3402**	**-0.5661**
	-1.69	*-1.06*	*1.71*
	(0.05**)	(0.14)	(0.04**)
FIS	**-0.2168**	**-0.3645**	**-0.4934**
	-0.55	*-0.87*	*1.13*
	(0.29)	(0.19)	(0.13)
YEAR	**0.1156**	**0.0971**	**0.1124**
	5.93	*4.18*	*4.67*
	(0.00***)	(0.00***)	(0.00***)
FO	**0.55324**	**0.1757**	**0.1870**
	2.19	*0.57*	*0.59*
	(0.01***)	(0.28)	(0.28)
BS	**0.0744**	**0.0857**	**0.0825**
	5.27	*5.09*	*4.67*
	(0.00**)	(0.00***)	(0.00***)
LNTA	**0.4142**	**0.4374**	**0.4415**
	13.43	*11.71*	*11.62***
	(0.00***)	(0.00***)	(0.00***)
LEV	**-0.1548**	**-0.2080**	**-0.2261**
	-1.25	*-1.27*	*-1.34*
	(0.11)	(0.10*)	(0.09*)

ROA(-1)	**0.0049**	**0.0034**	**0.0037**
	2.08	*1.42*	*1.28*
	(0.02**)	(0.08*)	(0.10*)
MV	**0.0552**	**0.0797**	**0.0769**
	2.61	*3.01*	*2.86*
	(0.00***)	(0.00***)	(0.00***)
_cons	**8.4345**	**8.1473**	**8.2121**
	19.78	*15.89*	*15.7*
	(0.00***)	(0.00***)	(0.00***)
Overall R^2	0.3679	0.3482	0.3406
Wald chi2(14)	411.56***	291.84***	288.81***
No. of companies	270	222	215
No. of observations	1262	938	874

Legend: Coefficient is bold. t-statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

Table 7.3 reports that the *ID* is statistically significant and negatively associated with the *LNEXREM* under all of the 3 panels (p-value < 0.01, t-statistic = -2.18 in panel (a); p-value < 0.10; t-statistic = -1.58 in panel (b); and p-value <0.05, t-statistic = -1.74 in panel (c)). This indicates that the independent non-executive directors play an effective role in governing the executive remuneration when there are investments from external institutions. Past literature documents that institutional investors prefer to invest in the companies with strong and independent boards (Downes, Houminer and Hubbard 1999; Schnatterly and Johnson 2014). The ineffectiveness of independent non-executive directors in Malaysian listed family companies may drive away the investment preference of institutional investors. Hence, in order to attract and retain the institutional investors for additional capital and business expansion, the *ID* in Malaysian listed family companies play an effective governing role. The interaction effect between the institutional investors and independent non-executive directors is further examined and discussed in section 7.6.

Besides, panel (c) reports a statistically significant and negative association (p-value < 0.10, t-statistic = -1.26) between the *IDT* and *LNEXREM* when there is the presence of both domestic and foreign institutional investors. This finding suggests that the independent non-executive directors with a longer tenure play a role in governing

executive remuneration when the firm ownership is held by varied investors. Both domestic and foreign institutional investors collectively exert pressure on the long-tenured independent non-executive directors who are expected to have more firm-specific knowledge to play an active governing role. The insignificance of *IDT* reported in panels (a) and (b) suggests that the shareholdings of domestic institutional investors or foreign institutional investors alone do not confer influential power for them to pressure the long-tenured independent directors. They have to collaborate and exert pressure collectively.

The multiple regression models (both cross-sectional regression model and panel regression model) in Chapter Six for all the sample family companies, which include the companies with and without institutional ownership, report that the *DIS* do not have any significant bearing effect on the executive remuneration. By specifically focusing on the companies with the presence of *dis*, the additional analyses unveil that the *DIS* exert a negative influence on the *LNEXREM* at 0.05 significance level, as reported in panels (a) and (c). This implies that the domestic institutional investors play an effective role in monitoring executive remuneration of investee companies. The findings suggest the domestic institutional investors are the potential mechanism that the minority shareholders could rely on in mitigating the prevalent Type II agency conflict in Malaysian listed family companies.

On the other hand, *FIS* do not show any significant association with the *LNEXREM* under all of the 3 panels (p-value > 0.10, t-statistic = -0.55 in panel (a); p-value > 0.10, t-statistic = -0.87 in panel (b); and p-value > 0.10, t-statistic = 1.13 in panel (c)). The findings of significant DIS and insignificant *FIS* suggest the different governance roles played by the institutional investors due to nationality heterogeneity and different stakes of shareholdings in the investee companies. The descriptive statistics in Chapter Five Table 5.20 reports that the foreign institutional shareholdings of Malaysian listed family companies are relatively low. The foreign institutional investors may find the costs of monitoring exceed the benefits of monitoring the management; they can opt to sell the shares and exit rather than intervene the management. In essence, the findings suggest that the monitoring role of domestic institutional investors prevail that of foreign institutional investors in Malaysian listed family companies. These findings

provide literature and empirical contributions that the governing roles of institutional investors in Malaysian listed family companies vary, depending on whether they are domestic or foreign.

Notwithstanding the insignificant influence of *FIS* on *LNEXREM*, the presence of foreign institutional investors impedes the family shareholders from using their concentrated ownership rights to interfere the remuneration arrangement. The family ownership (*FO*) is found to have an insignificant influence on the *LNEXREM* when there is the presence of foreign institutional investors, as reported in panels (b) and (c). In other words, the presence of foreign institutional investors dilutes the control of the family shareholders over executive remuneration in Malaysian listed family companies.

Earlier, Black (1992) suggests that the institutions should team up with other institutional investors to have more influence on the investee companies. This study further investigates the influence of total institutional shareholdings (*IS*), which include both domestic and foreign. Table 7.5 reports the REM results using total institutional shareholdings with an overall R^2 of 37.23%.

Based on Table 7.5, the total institutional shareholdings (*IS*) do not have any significant influence (p-value > 0.10, t-statistic = -1.17) on executive remuneration. This finding attests the governance ineffectiveness of the institutional investors in Malaysian listed family companies. This could be attributed to the conflict of interests arose during the collaborative engagement between the institutional investors. The diverging interests of the institutional investors and their differences in time horizons (transient [49] versus dedicated [50]) may be the impeding factors of an effective collaboration.

[49] Transient institutional investors have short investment horizons and high portfolio turnover, and they actively trade the stock (Zheng 2010; Bushee 1998, 2001).

[50] Dedicated institutional investors have longer investment horizons, concentrated holdings and low portfolio turnover (Zheng 2010; Bushee 1998, 2001).

Table 7.5: REM results using total institutional shareholdings

Variable	Coefficient	t-statistic	p-value
FD	0.1790	0.82	0.21
FCEO	0.0768	1.04	0.15
ID	-0.2792	-1.28	0.10*
IDT	-0.0009	-0.18	0.43
RD	0.0779	1.52	0.06*
IDRC	0.0252	0.24	0.40
IS	-0.2749	-1.17	0.12
YEAR	0.1182	6.12	0.00***
FO	0.4841	2.04	0.02**
BS	0.0749	5.34	0.00***
LNTA	0.4166	13.63	0.00***
LEV	-0.2130	-1.74	0.04**
ROA(-1)	0.0031	1.51	0.07*
MV	0.0656	3.04	0.00***
_cons	8.2449	19.74	0.00***
Overall R^2	0.3723		
Wald chi2(14)	413.43***		
No. of companies	279		
No. of observation	1395		

Legend: Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

7.4 Different Levels of Family Ownership

Lim and Yen (2011) note that for the executive ownership level of less than 23%, a unit increase in ownership will lead to approximately 1.1% decrease in salary; for the ownership levels between 23% and 76%, a unit increase in ownership will bring approximately 0.8% increase in salary. In light of their study, this study suspects that the influence of family participation on board, corporate governance mechanisms, and institutional ownership on executive remuneration may vary at different levels of family ownership. Thus, the additional analyses are conducted for the subsample companies according to the levels of family ownership: 20% to 29%, 30% to 39%, 40% to 49%, 50% to 59%, 60% to 69%, 70% to 79%, and 80% and above. Table 7.5 shows the panel regression results using REM for different levels of family ownership.

Based on Table 7.6, the controlling shareholders of Malaysian listed family companies use the structural position of CEO (*FCEO*) and/or the concentrated ownership (*FO*) to intervene in the executive remuneration at different levels of family ownership levels.

Table 7.6: REM results for different levels of family ownership

Panel	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	20% - 29%	**30% -39%**	**40% - 49%**	**50% - 59%**	**60% - 69%**	**70% - 79%**	**≧80%**
FD	**-0.5195**	**0.4294**	**0.2587**	**-0.1282**	**0.4935**	**-0.0856**	Insufficient
	-0.86	*0.83*	*0.58*	*-0.29*	*0.87*	*-0.09*	observations to
	(0.19)	(0.20)	(0.28)	(0.39)	(0.19)	(0.46)	run the panel
FCEO	**0.6229**	**0.3020**	**0.1980**	**0.0419**	**0.0115**	**0.4541**	regression
	3.05	*1.55*	*1.41*	*0.28*	*0.09*	*1.29*	model
	(0.00***)	(0.06*)	(0.08*)	(0.39)	(0.46)	(0.10*)	
ID	**0.4811**	**0.0999**	**0.7616**	**-0.5735**	**-0.2560**	**0.0791**	
	0.86	*0.16*	*1.67*	*-1.25*	*-0.49*	*0.09*	
	(0.19)	(0.44)	(0.05**)	(0.11)	(0.31)	(0.46)	
IDT	**-0.0136**	**0.0179**	**0.0089**	**-0.0011**	**-0.0026**	**-0.0160**	
	-1.11	*1.03*	*0.98*	*-0.11*	*-0.27*	*-0.81*	
	(0.13)	(0.15)	(0.16)	(0.46)	(0.40)	(0.21)	
RD	**0.1101**	**0.0545**	**0.1398**	**0.0686**	**0.0835**	**0.5685**	
	0.82	*0.31*	*1.44*	*0.73*	*0.93*	*2.2*	
	(0.21)	(0.38)	(0.07*)	(0.23)	(0.18)	(0.01***)	
IDRC	**-0.1150**	**-0.1542**	**0.1652**	**-0.2450**	**0.2312**	**0.3557**	
	-0.3	*-0.59*	*0.98*	*-1.22*	*0.82*	*0.67*	
	(0.38)	(0.28)	(0.16)	(0.11)	(0.21)	(0.25)	
DIS	**-0.7405**	**-0.3896**	**0.0756**	**-0.7069**	**1.4424**	**1.6037**	
	-0.86	*-0.73*	*0.14*	*-1.23*	*2.14*	*1.08*	
	(0.20)	(0.23)	(0.45)	(0.11)	(0.02**)	(0.14)	
FIS	**1.0751**	**-0.3475**	**-0.3204**	**0.1791**	**0.0097**	**-12.1826**	
	0.95	*-0.4*	*-0.49*	*0.17*	*0.01*	*-1.34*	
	(0.17)	(0.35)	(0.31)	(0.43)	(0.50)	(0.09*)	
YEAR	**0.0202**	**0.1449**	**0.0550**	**0.1569**	**0.1390**	**-0.0506**	

	0.36	*2.5*	*1.46*	*3.62*	*4.56*	*-0.53*
	(0.36)	(0.01***)	(0.07*)	(0.00***)	(0.00***)	(0.30)
FO	**3.8151**	**0.1015**	**1.9738**	**1.6483**	**1.9056**	**-3.8746**
	1.55	*0.04*	*1.31*	*1.26*	*1.98*	*-0.82*
	(0.06*)	(0.48)	(0.10*)	(0.10*)	(0.02**)	(0.21)
BS	**-0.0196**	**0.0852**	**0.0515**	**0.0687**	**0.0460**	**0.2073**
	-0.45	*2.29*	*2.03*	*2.39*	*1.53*	*3.24*
	(0.33)	(0.01***)	(0.02**)	(0.01***)	(0.06*)	(0.00***)
LNTA	**0.5461**	**0.4604**	**0.3363**	**0.4317**	**0.2582**	**0.5273**
	4.71	*5.63*	*6.21*	*7.74*	*3.6*	*4.25*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)
LEV	**0.0110**	**-0.6273**	**0.3382**	**-0.5333**	**0.1219**	**-0.5759**
	0.03	*-2.02*	*1.44*	*-2.17*	*0.49*	*-0.91*
	(0.49)	(0.02**)	(0.08*)	(0.02**)	(0.31)	(0.18)
ROA(-1)	**-0.0005**	**-0.0032**	**0.0027**	**0.0080**	**0.0027**	**0.0049**
	-0.10	*-0.53*	*0.54*	*1.56*	*0.61*	*1.03*
	(0.46)	(0.30)	(0.29)	(0.06*)	(0.27)	(0.15)
MV	**0.1292**	**0.1994**	**0.1342**	**0.0301**	**0.0300**	**0.0998**
	1.79	*2.04*	*3.19*	*0.77*	*0.91*	*0.8*
	(0.04**)	(0.02**)	(0.00***)	(0.22)	(0.18)	(0.21)
_cons	**7.9749**	**7.7556**	**7.7304**	**8.1582**	**9.1344**	**8.3674**
	4.44	*6.61*	*7.45*	*8.21*	*8.31*	*2.21*
	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.00***)	(0.01***)
Overall R^2	0.2972	0.3596	0.3542	0.5193	0.1536	0.6237
Wald chi2(15)	67.95***	90.95***	109.59***	179.45***	90.56***	66.00***
No. of companies	35	85	92	91	51	22

No. of observations	128	321	339	337	182	85

Legend: Coefficient is bold. t-statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

Despite the weak influence of family ownership (*FO*) on executive remuneration at 20% to 29% ownership level (p-value < 0.10, t-statistic = 1.55), the family CEO (*FCEO*) exerts a significant influence (p-value < 0.01, t-statistic = 3.05). At the family ownership level of between 30% and 39%, the *FO* shows an insignificant association (p-value > 0.10, t-statistic = 0.04), but the *FCEO* shows a significant association (p-value < 0.10, t-statistic = 1.55). Both *FCEO* and *FO* show a positive and statistically significant influence (p-value < 0.10, t-statistic = 1.41; and p-value < 0.10, t-statistic = 1.31 respectively) on the executive remuneration at the family ownership level of between 40% and 49%. Even though the *FCEO* does not have a significant influence on the *LNEXREM* at the ownership levels of 50% to 59% and 60% to 69% (p-value > 0.10, t-statistic = 0.28; and p-value > 0.10, t-statistic = 0.09 respectively), the family shareholders use their concentrated ownership (*FO*) to influence the executive remuneration (p-value < 0.10, t-statistic = 1.26; and p-value < 0.05, t-statistic = 1.98 respectively). At the ownership level of 70% to 79%, instead of using the concentrated ownership, family shareholders use the position of CEO (*FCEO*) (p-value < 0.10, t-statistic = 1.29) and CEO-chairman role duality structure (*RD*) (p-value < 0.01, t-statistic = 2.2) to intervene in the executive remuneration. In essence, these findings shows that at different levels of family ownership, the controlling shareholders of Malaysian listed family companies use either the structural position of CEO or concentrated ownership, or both, to influence the executive remuneration. Thus, the Type II agency conflict is evident via the significant influence of the controlling shareholders on executive remuneration through the ownership or/and management particularly, CEO position.

Panel (c) reports that at the family ownership of 40% to 49%, the independent non-executive directors (*ID*) is positively associated with the *LNEXREM* (p-value < 0.10, t-statistic = 1.41). Besides, the *RD* is also found to have a significant positive influence on the *LNEXREM* (p-value < 0.10, t-statistic = 1.44). The findings suggest that CEO-chairman role duality structure erodes the board autonomy. In this instance, the *ID* has the tendency to show allegiance by inflating the executive remuneration. Displeasing the CEO cum chairman would risks the opportunities to be re-elected to the boards. The *ID* does

not have significant influence on the executive remuneration at other levels of family ownership.

The family directors on board (*FD*) do not show any significant association with the *LNEXREM* at any levels of family ownership. The insignificant influence of the *FD* but significant influence of the *FCEO* indicate that family shareholders are prone to use the CEO position to exert an influence on remuneration arrangements. In general, the independent non-executive directors (*ID*) play a passive role in governing the executive remuneration. The average tenure of independent non-executive directors (*IDT*) is not associated with the *LNEXREM* at any levels of family ownership. In addition, the remuneration committees do not play a significant governing role at any levels of family ownership, attesting their formation is merely a puppet committee. Likewise, the institutional investors, both domestic (*DIS*) and foreign (*FIS*), also play an insignificant role in monitoring executive remuneration in Malaysian listed family companies. In a nutshell, at different levels of family ownership, the controlling family shareholders use either their concentrated ownership rights or CEO positions, or both to interfere the remuneration arrangement.

7.5 Tenure of Independent Non-Executive Directors

The revised MCCG 2012 introduces a new best practice, which is, the tenure of an independent director should not exceed a cumulative term of nine years. The mean value of the average tenure of independent non-executive directors (*IDT*) over the five-year study period in Malaysian listed family companies is 8.87 years, as reported by Table 5.15. During the data collection, it is observed that many Malaysian listed family companies retain independent non-executive directors whose tenure has exceeded nine-year tenure. In order to provide more insights, the sample companies are segregated into two subsamples: (a) companies with *IDT* less than or equals to nine years, and (b) *IDT* exceeds nine years. Table 7.7 shows the REM panel regression results for the two subsample sets with the R^2 of 36.77% and 38.50% respectively.

Table 7.7 shows that the *IDT* has no significant influence on the *LNEXREM* regardless it is less than or more than nine years. The *DIS* and *FIS* show a statistically significant and negative association (p-value < 0.01, t-statistic = -2.2; and p-value < 0.05, t-statistic = -1.67 respectively) with the *LNEXREM* when the *IDT* is more than nine years, as reported in panel (b). The findings indicate that the institutional investors, both domestic and foreign, monitor the executive remuneration circumspectly when the average tenure of independent non-executive directors exceeds nine years. They are probably concerned about the independence function of the long-tenured independent non-executive directors.

Table 7.7: REM results for: (a) companies with *IDT* ≦ nine years, and (b) companies with *IDT* > nine years

Panel	(a)	(b)
	Companies with *IDT* ≦ nine years	**Companies with *IDT* > nine years**
FD	**0.2143**	**0.1198**
	0.73	*0.36*
	(0.23)	(0.36)
FCEO	**0.0567**	**0.1156**
	0.57	*1.12*
	(0.29)	(0.13)
ID	**-0.3287**	**-0.3330**
	-1.1	*-0.88*
	(0.14)	(0.19)
IDT	**0.0034**	**0.0009**
	0.32	*0.09*
	(0.37)	(0.47)
RD	**0.1616**	**0.0015**
	2.32	*0.02*
	(0.01***)	(0.49)
IDRC	**0.1162**	**-0.0097**
	0.86	*-0.05*
	(0.20)	(0.48)
DIS	**-0.2144**	**-0.7447**
	-0.55	*-2.2*
	(0.29)	(0.01***)
FIS	**-0.2737**	**-0.9599**
	-0.51	*-1.67*
	(0.31)	(0.05**)
YEAR	**0.0953**	**0.1274**
	3.09	*4.15*
	(0.00***)	(0.00***)

FO	**0.5299**	**-0.3186**
	1.77	*-0.9*
	(0.04**)	(0.18)
BS	**0.0731**	**0.0822**
	3.86	3.53
	(0.00***)	(0.00***)
LNTA	**0.3776**	**0.4649**
	9.38	*10.17*
	(0.00***)	(0.00***)
LEV	**-0.3321**	**0.0031**
	-1.9	*0.02*
	(0.03**)	(0.49)
ROA(-1)	**0.0031**	**0.0067**
	1.20	*1.54*
	(0.11)	(0.06*)
MV	**0.0873**	**0.0385**
	2.91	*1.14*
	(0.00***)	(0.13)
_cons	**8.6894**	**7.9846**
	16.01	*12.3*
	(0.00***)	(0.00***)
Overall R^2	0.3677	0.3850
Wald chi2(14)	210.08***	227.75***
No. of companies	220	174
No. of observations	801	594

Legend: Coefficient is bold. t-statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

In this instance, instead of relying on the independent non-executive directors who deemed to lose independence function over a long serving period, the institutional investors become increasingly willing to use their ownership rights to intervene in the remuneration arrangement. In such disciplinary circumstance, the influence of family shareholders on the executive remuneration is diluted, as reported by the insignificant association between the *FO* and *LNEXREM* in panel (b). In addition, the intervention of domestic and foreign institutional investors makes the executive remuneration links to the lagged firm performance (*ROA(-1)*), as reported in panel (b).

In short, when the average tenure of the independent non-executive directors exceeds the nine-year cap stipulated by the revised MCCG 2012, the institutional investors are likely

to be concerned about the effectiveness of the board in governing the executive remuneration. Both domestic and foreign institutional investors play an active monitoring role, which subsequently dilute the control of family shareholders on the determination of executive remuneration.

In addition, this study uses an alternative measurement to measure the tenure of independent non-executive directors and re-run the panel regression model. The measurement of the average tenure of the independent non-executive directors may fail to reflect the board dynamics. The alternative measurement is proxied by the proportion of independent non-executive directors whose tenure exceed nine years over the total number of independent non-executive directors on board, *IDT#* (Liu and Sun 2010). Table 7.8 shows the REM results using *IDT#* with the overall R^2 of 37.17%.

Table 7.8: REM results using *IDT#*

Variable	Coefficient	t-statistic	p-value
FD	0.1483	0.68	0.25
FCEO	0.0757	1.03	0.15
ID	-0.2673	-1.23	0.11
IDT#	0.0506	1.16	0.12
RD	0.0762	1.48	0.07*
IDRC	0.0268	0.26	0.40
DIS	-0.2890	-1.12	0.13
FIS	-0.2044	-0.52	0.30
YEAR	0.1139	5.92	0.00***
FO	0.4889	2.05	0.02**
BS	0.0750	5.36	0.00***
LNTA	0.4133	13.44	0.00***
LEV	-0.2009	-1.65	0 .05**
ROA(-1)	0.0030	1.45	0.07*
MV	0.0660	3.06	0.00***
_cons	8.2573	19.54	0.00***
Overall R^2	0.3717		
Wald chi2(15)	413.96***		
No. of companies	279		
No. of observation	1395		

Legend: Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.

Table 7.8 reports that the *IDT#* has no significant association (p-value > 0.10, t-statistic = 1.16) with the executive remuneration. This finding further validates that the tenure of the independent non-executive directors does not have any influence on the executive remuneration in Malaysian listed family companies. The Malaysian listed family companies may retain the independent non-executive directors and allow them to accumulate tenure due to their knowledge and expertise in other areas, but not in governing executive remuneration.

7.6 Interaction Effects between the Variables

Schnatterly and Johnson (2014) and Miletkov, Poulsen, and Babajide Wintoki (2014) note that the institutional investors prefer to invest in the companies with a greater board independence. On this premise, it is expected that the institutional investors would interact with the independent non-executive directors on board to enhance the governance of executive remuneration. Hence, the interaction effects between the independent non-executive directors and institutional investors – domestic and foreign are examined. Besides, the interaction effects between the family shareholders and family directors and family CEOs are also evaluated. Essentially, the panel regression model involving the interaction effects between the variables intends to shed light whether the institutional investors (domestic or foreign) interact with the independent non-executive directors to protect the interests of minority shareholders (mitigate the Type II agency problem); or on the other hand, the family shareholders interact with the family CEOs or directors on board to extract excessive remuneration (exacerbate the Type II agency problem). Table 7.9 shows the REM results involving the interaction effects between the variables. The overall R^2 is 37.50%.

Based on Table 7.9, the interaction effects between the independent non-executive directors on board and institutional shareholdings, both domestic (*ID*DIS*) and foreign (*ID*FIS*), do not have any significant influence (p-value > 0.10, t-statistic = 1.19; and p-value > 0.10, t-statistic = -0.34 respectively) on the executive remuneration. The findings corroborate the main findings in section 6.4, and attest the ineffectiveness of the independent non-executive directors and institutional investors as the corporate

governance mechanisms in Malaysian listed family companies. Succinctly, the independent non-executive directors on board and institutional investors, both domestic and foreign, could not well represent the interests of the minority shareholders and mitigate the Type II agency conflict in Malaysian listed family companies via executive remuneration.

Table 7.9: REM results with the interaction effects between variables

Variable	Coefficient	t-statistic	p-value
IDT	-0.0009	-0.18	0.43
RD	0.0819	1.59	0.07
IDRC	0.0187	0.18	0.43
*ID*DIS*	1.9659	1.19	0.12
*ID*FIS*	-0.9240	-0.34	0.37
*FD*FO*	0.3001	0.23	0.41
*FCEO*FO*	0.7583	1.56	0.06*
YEAR	0.1191	6.12	0.00***
BS	0.0729	5.16	0.00***
LNTA	0.4133	13.35	0.00***
LEV	-0.2045	-1.67	0.05**
ROA(-1)	0.0029	1.42	0.08*
MV	0.0648	3.0	0.00***
_cons	8.7327	16.99	0.00***
Overall R^2	0.3750		
Wald chi2(15)	417.87***		
No. of companies	279		
No. of observation	1395		

Legend: Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional. *ID*DIS* is the interaction effect between the independent non-executive directors and domestic institutional shareholdings; *ID*FIS* is the interaction effect between the independent non-executive directors and foreign institutional shareholdings; *FD*FO* is the interaction effect between the family directors and family ownership; *FCEO*FO* is the interaction effect between the family CEO and family ownership.

The interaction effect between the family CEOs and family ownership (*FCEO*FO*) shows a positive and statistically significant association (p-value < 0.10, t-statistic = 1.56) with the executive remuneration. This finding supports the findings in section 7.2, where the family ownership has a significant influence on the executive remuneration only when the CEOs are family directors. These findings suggest that the controlling family shareholders in Malaysian listed family companies combine their concentrated ownership and

managerial power of CEOs to intervene in executive remuneration. Thus, Type II agency conflict is evident in Malaysian listed family companies.

7.7 Summary

The additional analyses conducted in this chapter provide a deeper insight into the influence of family participation on board, corporate governance mechanisms, and institutional ownership on the executive remuneration in Malaysian listed family companies. The first additional analysis shows that different independent variables have different influence on the executive remuneration across different industry sectors. The factors influencing executive remuneration vary due to the industry heterogeneity.

The second additional analysis reveals that family shareholders exert a significant influence on the executive remuneration only when the CEOs are their family members. The influence of family ownership on executive remuneration is insignificant when the CEOs are non-family directors. These findings provide a theoretical implication by asserting that the Type II agency conflict via executive remuneration in family companies is ameliorated when the CEOs have no kinship with the controlling shareholders.

The third additional analysis unveils the different governance roles played by the domestic and foreign institutional investors in Malaysian listed family companies. Specifically, the role of the former in governing executive remuneration prevails the latter. Notwithstanding the insignificant influence of foreign institutional investors on executive remuneration, their presence reduces the tendency of family shareholders to use their concentrated ownership to intervene in executive remuneration. In other words, the foreign institutional investors dilute the control of family shareholders on remuneration arrangements.

The forth additional analysis shows that at different levels of family ownership, the controlling family uses either the concentrated ownership or CEO position, or both, to influence the remuneration arrangement. Succinctly, the Type II agency conflict is evident in Malaysian listed family companies; family shareholders exert a significant influence on

executive remuneration via managerial entrenchment (through CEO position) and/or concentrated ownership.

The fifth additional analysis reports that the average tenure of independent non-executive directors has an insignificant influence on executive remuneration, regardless it is less than or more than the nine-year cap stipulated by the revised MCCG 2012. Notwithstanding this, when it is more than nine years, both domestic and foreign institutional investors become circumspect and play an active role in monitoring executive remuneration. Instead of relying on the independent non-executive directors who deem to lose independence over a long tenure, institutional investors use their ownership rights to voice out and intervene in the remuneration arrangements.

The last additional analysis, which involves the interaction effects between the variables, attests the ineffectiveness of the independent non-executive directors and institutional investors in governing executive remuneration in Malaysian listed family companies. In addition, the findings provide an empirical evidence that the controlling shareholders combine their concentrated ownership and managerial power of CEOs to influence the executive remuneration.

In general, the control variables, which are the family ownership (*FO*), board size (*BS*), firm size (*LNTA*), lagged firm performance (*ROA(-1)*), and growth opportunities (*MV*) are statistically significant and positively associated with executive remuneration; while firm leverage (*LEV*) is statistically significant and negatively associated with executive remuneration.

CHAPTER EIGHT: CONCLUSIONS

8.0 Introduction

This chapter summarises the study and provides concluding insights into the executive remuneration of listed family companies in Malaysia from 2011 to 2014; it encompasses a five-year period spanning a phase of enhanced corporate governance landscape. Section 8.1 recaps the objectives and research questions of this thesis; section 8.2 recapitulates the significant findings of the study; section 8.3 discusses the implications drawn from the findings; section 8.4 outlines the assumptions, identifies the limitations of this study and presents future research ideas; section 8.5 discusses the contributions of this thesis; and, section 8.6 provides the concluding remarks of the study.

8.1 Objectives and Research Questions

The increasing level of executive remuneration over time has captured the public attention and germinated voluminous empirical studies. The agency theory and past literature suggest that the board of directors and institutional investors are corporate governance mechanisms that could rein in executive remuneration and mitigate the Type I agency conflict between the shareholders and management in widely held companies. This thesis investigates whether these mechanisms could govern the executive remuneration and ameliorate the Type II agency conflict between controlling shareholders and minority shareholders in the companies with concentrated ownership structure, specifically family companies.

Accordingly, the main objectives of this thesis are as follows: (i) to evaluate the extent of executive remuneration of listed family companies in Malaysia from 2010 to 2014; (ii) to examine the factors influencing the executive remuneration of listed family companies in Malaysia; and (iii) to investigate the impact of the revised Malaysian Code on Corporate Governance 2012 on executive remuneration of listed family companies in Malaysia. This longitudinal time period is marked by the second revision to Malaysian Code of Corporate Governance in 2012, which takes into account the changing market dynamics,

international developments, and the need to continuously recalibrate and enhance the effectiveness of the corporate governance framework.

The study identifies several factors that are associated with the executive remuneration over the five-year period, which is considered representative of the enhanced corporate governance and accountability. Specifically, this study addresses the following three research questions:

1. What is the extent of executive remuneration of listed family companies in Malaysia from 2010 to 2014?
2. What are the factors influencing the executive remuneration of listed family companies in Malaysia?
3. What is the impact of the revised Malaysian Code on Corporate Governance 2012 on executive remuneration of listed family companies in Malaysia?

The analysis is considered important as it deepens the understanding of the extent of executive remuneration and its determinants in Malaysian listed family companies during the period of enhanced corporate governance framework.

8.2 Research Findings

This section summarises the research findings that answer the research questions of this study. Sections 8.2.1 addresses research question 1; whilst section 8.2.2 addresses research questions 2 and 3.

8.2.1 Extent of Executive Remuneration of Listed Family Companies in Malaysia

The findings of this study show that the Malaysian listed family companies pay higher remuneration to executive directors, which is, on average, higher than the figures reported by other studies in the Malaysian context. This study finds out that the mean value of executive remuneration over the five-year period is RM3.41 million. The positions of executive directors and CEOs in Malaysian listed family companies are dominated by the controlling shareholders and their family members. In some companies, all of the

executive directors are family directors. Accordingly, the executive remuneration is largely accounted for the family executive directors and CEOs.

The executive remuneration of Malaysian listed family companies shows an increasing trend over the five-year period from RM2.63 million in 2010 to RM4.20 million in 2014, an increase of 59.70%. The one-way repeated measures ANOVA report that the increase over the five-year period is statistically significant. The paired t-tests are performed to test the differences between the means of executive remuneration for consecutive years over the study period. The increase in mean executive remuneration during the periods of 2010-2011 and 2011-2012 are statistically significant at 0.01 level with the largest change of 15.17% occurring between 2010 and 2011. The increase in mean executive remuneration from 2012 to 2013 is not statistically significant. This could be attributed to the introduction of the revised MCCG 2012, which appears to provide an enhanced governance of directors' remuneration in the first year of its implementation. Nonetheless, the increase in mean executive remuneration between 2013 and 2014 is statistically significant at 0.10 level, implying that the revised MCCG 2012 is effective in restraining executive remuneration in the first year of implementation only. Notwithstanding this, the 0.10 significance level at the 2013-2014 period is weaker than the 0.01 significance level shown in the preceding periods, 2010-2011 and 2011-2012. The increasing trend of executive remuneration over the study period is contrary to the research proposition of this thesis.

Under Malaysian legislations, except for the fees, directors' remuneration does not require the shareholders' approval even though the amounts involved may be substantial (KPMG Malaysia 2012; Minority Shareholder Watchdog Group 2015). This study finds out that the increase in bonuses is higher than the increase in fees or salaries over the five-year period (51.53% versus 34.34%). There is a genuine concern that other components of executive remuneration such as bonuses, allowances, and other benefits are designed by and for the controlling family shareholders and directors without the approval of other shareholders. To an extent, the significant increase of executive remuneration over the years may be a sign of expropriation of minority shareholders by the controlling family

shareholders in Malaysian listed family companies. Alternatively, the increasing executive remuneration could be interpreted as a motivating source for the executive directors to improve their performance.

8.2.2 Explanatory Variables and Their Associations with Executive Remuneration

It is hypothesised that family participation on board, corporate governance mechanisms, and institutional ownership exert influences on the executive remuneration of listed family companies in Malaysia. The main analyses in Chapter Six show that family participation on board, which is proxied by family directors and family CEOs, does not have statistically significant influence on the executive remuneration. With regard to the corporate governance mechanisms, the CEO-chairman role duality is statistically significant and positively associated with executive remuneration; the independent non-executive directors has marginal effect in restraining executive remuneration; the tenure of independent non-executive directors and the remuneration committee have no significant bearing on executive remuneration. The institutional investors, both domestic and foreign, do not play an effective governance role in monitoring executive remuneration in Malaysian listed family companies.

8.2.2.1 Family Participation on Board

Different from the past literature documenting that controlling shareholders generally reserve board directorship for their family members (Barnett 1960; Moores and Craig 2008; Husnin, Nawawi and Salin 2016), this study finds out that Malaysian listed family companies recruit more independent non-executive directors than electing the family directors to the corporate boards (42.46% versus 40.89%). This may be attributed to the introduction and continuous revision of the Malaysian Code on Corporate Governance which emphasises the board independence.

Thus far, there are limited studies examining the association between family participation on board and executive remuneration. Of the few studies, Sapp (2008) reports that the proportion of family directors is negatively associated with CEO remuneration in Canadian listed companies, suggesting that the family representation of controlling

shareholders on corporate board provides a source of monitoring. On the other hand, Barontini and Bozzi (2011) reveal that higher board remuneration is associated with a higher proportion of family directors on board in Italian listed companies, implying rent extraction by family directors at the expense of minority shareholders. The former examines the CEO remuneration, instead of all the executive directors; the latter includes the remuneration of both executive and non-executive directors in the measurement of board remuneration. These past studies are conducted in the context of western developed countries.

Different from past studies, this study examines the association between family participation on board and executive remuneration (all of the executive directors) in the context of a developing country, Malaysia. According to PWC (2016c), executive remuneration is one of the key issues the investors are concerned with nowadays. This study urges for more empirical studies on the remuneration of all the executive directors, instead of just focusing on one of the executive directors – the CEO.

The multiple regression results for each-year observations and the panel regression results show that there is no statistically significant association between the family participation on board (measured by the proportion of family directors and the presence of family CEO) and executive remuneration in Malaysian listed family companies. Hence, H_1 and H_2 are not supported. These findings do not support past studies (Sapp 2008; Barontini and Bozzi 2011). Essentially, the findings in the context of western developed countries are not applicable in Malaysian listed family companies. The findings of this study suggest that the family directors and CEOs in Malaysian listed family companies do not use their board directorship or managerial positions to influence the executive remuneration.

8.2.2.2 Corporate Governance Mechanisms

This study examines the influence of corporate governance mechanisms on the executive remuneration of listed family companies in Malaysia, which include (i) board independence; (ii) tenure of independent non-executive directors; (iii) CEO-chairman role duality; and (iv) remuneration committee.

(i) Board Independence

The proportion of independent non-executive directors on board of Malaysian listed family companies over the five-year period is 42.46%, which is higher than the proportion of family directors on board – 40.89%. This composition enables the independent non-executive directors to counterbalance the control of family directors over the executive remuneration – the family directors do not have any statistically significant influence on the executive remuneration, as mentioned in the preceding section.

The panel regression results show that the independent non-executive directors are negatively associated with the executive remuneration, suggesting they play an effective monitoring role. Thus, H_3 is supported. This finding is consistent with the past studies (Ghosh 2006; Lim and Yen 2011). The p-value of board independence reported in this study is 0.10, which is higher than the p-value reported by those past studies. This indicates that the independent non-executive directors in Malaysian listed family companies are able to govern the executive remuneration, however, the influence is relatively weak. This may be due to several reasons. Firstly, Malaysians are characterised as high power distance (The Iclif Leadership and Governance Centre 2014). The independent non-executive directors may be averse to challenging the remuneration packages of executive directors because most of them are family members of the controlling shareholders. Secondly, the non-alignment with the controlling shareholders and their families may risk the opportunities to be re-elected to the board. Thirdly, the independent non-executive directors may have the tendency to show their appreciation and loyalty to the controlling shareholders who elect them to the board.

In summary, the negative association reported by panel regression model suggests that, to some extent, the independent non-executive directors could restrain the executive remuneration. They are potentially one of the governance mechanisms that the minority shareholders could rely on to protect their interests against family opportunism and lessen the expropriation issue in Malaysian listed family companies.

(ii) Tenure of Independent Non-Executive Directors

The average tenure of independent non-executive directors in the Malaysian listed family companies is 8.86 years over the five-year period. The average tenure increases from 8.02 years in 2010 to 9.53 years in 2014. Besides, 43.51% of the independent non-executive directors in the sample companies serve more than nine years in the same capacity. This implies the non-compliance with the new governance practice introduced by the revised MCCG 2012, which is, the cumulative tenure of the independent non-executive director should be capped at nine years. Vafeas (2003) maintains that the length of independent directors' tenure is an observable proxy for what is truly at issue but remains unobserved.

The panel regression results show that there is no statistically significant association between the average tenure of independent non-executive directors and executive remuneration. Hence, H_4 is not supported. Notwithstanding this, the cross-sectional multiple regression results report a statistically significant and negative association in 2013 and 2014. The average tenure of independent non-executive directors is 9.13 years and 9.53 years in 2013 and 2014 respectively. The findings indicate that the independent non-executive directors play an effective governing role in restraining executive remuneration when their tenure exceeds nine years. This may be attributed to the acquisition of better firm-specific knowledge and experience over a longer tenure, hence, contributing to an enhanced governance. The findings do not support the management friendliness hypothesis proposed by Vafeas (2003) that independent non-executive directors would develop friendly relationships with the management over a long tenure and less likely to monitor them. Further, the findings do not support the new best practice introduced by the revised MCCG 2012 that the tenure of the independent non-executive director should be capped at nine years. Accordingly, this study sets forth the notion that long-tenured independent non-executive directors could effectively govern the executive remuneration in Malaysian listed family companies.

(iii) CEO-Chairman Role Duality

This study finds out that more than 75.00% of Malaysian listed family companies comply with the recommendation of the MCCG to separate the roles of board chairman and CEO.

The multiple regression results in 2013 and 2014 and the panel regression results report that the CEO-chairman role duality is positively associated with executive remuneration. Consequently, H_5 is supported. These findings are in accordance with the past studies in the US context (Core, Holthausen and Larcker 1999; Cyert, Kang and Kumar 2002; Grinstein and Hribar 2004). The statistically significant and positive association is reported in 2013 and 2014 even after the implementation of the revised MCCG 2012.

In Chapter Five, section 5.2 reports that approximately 90.00% of the CEOs in the Malaysian listed family companies are family directors. The positive association indicates that the controlling family uses the high structural power and symbolic positions of board chairman cum CEO to intervene in the executive remuneration. The CEO-chairman role duality structure erodes the board governance and empowers the CEOs, particularly family CEOs, to inflate the executive remuneration as there is no one on the board with formal authority to oversee his or her decisions and actions.

(iv) Remuneration Committee

This study reveals that approximately 95.00% of Malaysian listed family companies have established the remuneration committee as recommended by the MCCG. On average, the remuneration committee comprises 65.61% independent non-executive directors and 22.36% family directors over the five-year period.

The multiple regression results for each period and panel regression results report that there is no statistically significant association between the remuneration committee (measured by the proportion of independent non-executive directors on the remuneration committee) and executive remuneration. Thus, H_6 is not supported. These findings concur with the past studies in the developed countries, particularly the UK and the US (Benito and Conyon 1999; Anderson and Bizjak 2003; Gregory-Smith 2012). Nonetheless, the

findings are inconsistent with the negative association reported by Lim and Yen (2011) in the Malaysian context.

The insignificant association suggests that the remuneration committee is merely a puppet committee established by Malaysian listed family companies to comply with the MCCG and gain legitimacy. Independent non-executive directors on remuneration committee may have been roped in by the management, particularly family directors. Besides, the presence of family directors on remuneration committee may be a culprit for the failure of remuneration committee to govern the executive remuneration effectively. There is a genuine concern that the family directors on remuneration committee counterbalance the function of independent non-executive directors on remuneration committee in setting the remuneration packages.

8.2.2.3 Institutional Ownership

The average domestic and foreign institutional shareholdings in the Malaysian listed family companies over the five-year period are 10.98% and 4.53% respectively. The foreign institutional shareholdings are less than half of the domestic institutional shareholdings. Both institutional shareholdings in listed family companies are comparatively lower than the findings of other studies in the Malaysian context (Abdul-Wahab and Abdul-Rahman 2009; Ghazali 2010). These findings suggest that institutional investors, particularly the foreign, have less investment preference in Malaysian listed family companies.

The cross-sectional and panel regression results show that both domestic and foreign institutional shareholdings do not have any significant influence on the executive remuneration. As such, H_7 and H_8 are not supported. These findings do not support the past studies (Hartzell and Starks 2003; Ozkan 2007; Abdul-Wahab and Abdul-Rahman 2009). The insignificant influence may be due to several reasons. Firstly, the shareholdings of domestic and foreign institutional investors are relatively low in Malaysian listed family companies, hence making their voice less powerful. Secondly, they are less inclined to intervene in the management because the costs of monitoring may

exceed the benefits. Thirdly, the institutional investors may lack knowledge and experience on how to effectively engage with the investee companies. The Malaysian Code for Institutional Investors which gives guidance to institutional investors is introduced in 2014; prior to that, the institutional investors in Malaysian companies generally did not have any explicit guides. Fourth, they may encounter conflict of interests with other institutions, which impede the effective engagement with the investee companies.

During the data collection, it is noted that some Malaysian listed family companies do not have the investment from institutional investors at all. Hence, additional analyses are conducted specifically for the sample companies that have institutional ownership.

The additional analyses (section 7.3 in Chapter Seven) specifically focus on the companies with domestic institutional investors and foreign institutional investors; the findings unveil that the former exerts a significant negative influence on executive remuneration, while the latter does not have any significant influence. These findings suggest that the role of domestic institutional investors prevails that of foreign institutional investors in governing the executive remuneration. This may be due to the higher shareholdings of domestic institutional investors than their foreign counterparts (10.98% versus 4.53%), thus making their voice more powerful than the foreign institutional investors. Despite the insignificant association between foreign institutional shareholdings and executive remuneration, the additional analyses show that the presence of foreign institutional investors reduces the tendency of family shareholders to use their concentrated ownership rights to intervene in the executive remuneration. These findings indicate the different governance role played by institutional investors due to nationality heterogeneity.

In a nutshell, the main analysis in Chapter Six reports that the domestic and foreign institutional shareholdings do not have any significant influence on the executive remuneration among the overall Malaysian listed family companies. The additional analyses in Chapter Seven, which specifically focus on the companies with institutional ownership, show that the domestic institutional investors directly exert a negative

influence on the executive remuneration, while the foreign institutional investors dilutes the control of family shareholders over the executive remuneration.

8.2.2.4 Revised MCCG 2012

Panel regression analysis and the majority of the additional analyses report that the executive remuneration is positively associated with *YEAR*, which is the proxy for revised MCCG 2012. The findings indicate the revised MCCG 2012 does not enhance the governance of remuneration policy and could not restrain the remuneration level of listed family companies in Malaysia.

8.2.2.5 Control Variables

The control variables included in this thesis are family ownership, board size, firm size, firm leverage, lagged firm performance and growth opportunities.

The panel regression results report that family ownership is statistically significant and positively associated with executive remuneration. This is consistent with the past studies (Haid and Yurtoglu 2006; Cheung, Stouraitis and Wong 2005). The finding indicates that the controlling family uses the concentrated ownership rights to influence the executive remuneration. Type II agency conflict is evident in Malaysian listed family companies. The additional analysis unveils that when the CEOs are not related to the controlling family shareholders, family ownership is not associated with executive remuneration; when the CEOs have family relationships with the controlling shareholders, family ownership is positively associated with executive remuneration. These findings imply that the influence of family shareholders on executive remuneration via concentrated ownership is diluted when the CEOs have no kinship with them. In addition, the executive remuneration is statistically significant and positively associated with the board size, firm size, lagged firm performance, growth opportunities; and negatively associated with firm leverage.

Table 8.1 summarises the panel regression results using REM over the five-year period.

Table 8.1 Summary of REM results

Variable	Hypothesis	Hypothesised association with executive remuneration	Result	Decision
FD	H_1	Positive	Insignificant	Not Supported
FCEO	H_2	Positive	Insignificant	Not Supported
ID	H_3	Negative	Negative	Supported
IDT	H_4	Positive	Insignificant	Not Supported
RD	H_5	Positive	Positive	Supported
IDRC	H_6	Negative	Insignificant	Not Supported
DIS	H_7	Negative	Insignificant	Not Supported
FIS	H_8	Negative	Insignificant	Not Supported
YEAR	H_9	Negative	Positive	Not Supported
FO			Positive	
BS			Positive	
LNTA			Positive	
LEV			Negative	
ROA(-1)			Positive	
MV			Positive	

Table 8.2 summarises the multiple regression results for each year.

Table 8.2 Summary of multiple regression results for each year

Variable	Hypothesis	Hypothesised association with executive remuneration	2010	2011	2012	2013	2014
FD	H_1	Positive	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported
FCEO	H_2	Positive	Positive/ Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported
ID	H_3	Negative	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported
IDT	H_4	Positive	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Negative/ Not Supported	Negative/ Not Supported
RD	H_5	Positive	Insignificant/ Not Supported	Positive/ Supported	Insignificant/ Not Supported	Positive/ Supported	Positive/ Supported
IDRC	H_6	Negative	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported
DIS	H_7	Negative	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported
FIS	H_8	Negative	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported	Insignificant/ Not Supported
FO			Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
BS			Positive	Positive	Positive	Positive	Positive
LNTA			Positive	Positive	Positive	Positive	Positive
LEV			Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
ROA(-1)			Insignificant	Positive	Positive	Positive	Positive
MV			Positive	Insignificant	Positive	Positive	Positive

8.3 Implications

The findings of this study have several theoretical and practical implications. This study employs the agency theory as the theoretical framework. The majority of remuneration studies premise on the Type I agency conflict between shareholders and management in widely held companies (Hartzell and Starks 2003; Ozkan 2007; Abdul-Wahab and Abdul-Rahman 2009; Yatim 2013); a limited number of remuneration studies base on the Type II agency conflict between the controlling shareholders and minority shareholders (Gomez-Mejia, Larraza-Kintana and Makri 2003). As such, a theoretical gap arises on whether the corporate governance mechanisms recommended to govern executive remuneration and mitigate Type I agency conflict in widely held companies could effectively rein in the executive remuneration and ameliorate Type II agency conflict in companies with concentrated ownership, particularly family companies. This study fills the theoretical gap by premising on Type II agency conflict to examine the executive remuneration of Malaysian listed family companies.

By integrating the family business and corporate governance literature, this study makes a theoretical implication that the Type II agency conflict is ameliorated when the CEOs have no kinship with the controlling shareholders. This is evident in the additional analysis (section 7.2) in Chapter Seven. The family ownership exerts a significant positive influence on the executive remuneration when the CEOs are family directors; and insignificant influence when the CEOs are non-family directors. Of significance, this study is the first to document that the control of controlling family shareholders over executive remuneration is diluted when the CEOs have no family relationships with them. This study extends the agency theory, that is, family CEO exacerbates the Type II agency conflict while non-family CEO mitigates it.

The main analyses in Chapter Six report that the family directors, family CEOs, remuneration committee and the tenure of independent non-executive directors do not have any significant influence on the executive remuneration. While the CEO-chairman role duality structure aggravates the Type II agency conflict via executive remuneration, the independent non-executive directors could marginally restrain the executive

remuneration in Malaysian family listed companies. The institutional investors, both domestic and foreign, do not have any significant influence on the executive remuneration. These findings indicate that the corporate governance mechanisms suggested by the agency theory advocators to mitigate the Type I agency conflict between shareholders and management in widely held companies could not effectively alleviate the Type II agency conflict between controlling shareholders and minority shareholders in Malaysian listed family companies. The institutional setting as well as the unique characteristics of Malaysian listed family companies may allow the controlling family shareholders to extract benefits via executive remuneration at the expense of minority shareholders. Of essence, this research updates the extant literature as well as provides a better understanding of the agency relationships and agency problems between the controlling shareholders and minority shareholders in the owner-manager led family companies.

Practically, the findings of this thesis have several implications for the individual family companies, policy makers, regulators, and investors. The findings shed light on the corporate governance issues in Malaysian listed family companies. In general, the monitoring function of the independent non-executive directors in Malaysian listed family companies is weak. Miletkov, Poulsen, and Babajide Wintoki (2014) document that foreign investors prefer to invest in the companies with strong board independence, especially in the countries with a lower level of investor protection. At the firm level, access to foreign capital is valuable for individual family companies that intend to expand the business. Individual family companies in Malaysia could at least partially mitigate the concern of foreign investors about the lack of external legal protection of shareholder rights and deliver a signal not to engage in minority shareholder expropriation by increasing the independence degree of the board of directors and remuneration committee, thereby attracting external capital from foreign investors. The involvement of the controlling shareholders and their family members in the remuneration committee would raise the concern of foreign investors that the former design own remuneration packages with one hand and approves with another hand. The firm-level choice to better corporate governance is pivotal to attract the foreign investors. At the country level, the Securities Commission Malaysia and Malaysia Institute of Corporate Governance should

recommend ways to improve the independence and governance role of independent non-executive directors especially in family companies in order to strengthen the investor confidence.

Furthermore, this study documents that despite the positions of CEO and chairman are held by different individuals in some family companies, they are related to each other, e.g. spouse, siblings, relatives, parent, and children. This raises the concern whether the board chairman, who is related to CEO, could effectively monitor and oversee the decisions and actions of the CEO due to kinship and altruism. Instead of recommending that the positions of board chairman and CEO to be held by different individuals, the Securities Commission Malaysia could recommend that they should not have the tie of kinship in order to strengthen the board autonomy.

This study reports that a majority of family companies disclose the aggregate remuneration of all the executive directors. Besides, there are only a few of the family companies that disclose the share option scheme. The Bursa Malaysia Listing Requirements should encourage the public listed companies to disclose the remuneration details of each director, including the share option scheme in order to enhance the corporate transparency and accountability.

Moreover, in view of the ineffectiveness of independent non-executive directors and institutional investors in governing the executive remuneration and the significant positive influence of the family ownership on the executive remuneration, the Minority Shareholder Watchdog Group should regularly target and monitor the family companies in order to protect minority shareholders' rights. During the companies' annual meetings, they should question aggressively the remuneration process and arrangement in order to alleviate the potential of fund misappropriation by controlling family shareholders.

Besides, the findings of this study would be of interest to the general and institutional investors to evaluate the investor protection in Malaysian listed family companies. Furthermore, the governing ineffectiveness of both domestic and foreign institutional

investors reported by this study may signal that they lack experience and knowledge of how to effectively govern the investee companies. The Securities Committees Malaysia and Minority Shareholder Watchdog Group could organise conferences or provide a platform for institutional investors to gain and exchange the fundamental knowledge of how to effectively engage with investee companies and enhance the firm-level corporate governance.

8.4 Assumptions, Limitations and Suggestions for Future Studies

This thesis makes several assumptions and identifies some limitations of this study. Section 8.4.1 discusses the assumptions while section 8.4.2 discusses the limitations and makes some suggestions for future studies.

8.4.1 Assumptions

This thesis makes four major assumptions. First, the sample family companies chosen by this study is assumed to largely represent all of the listed family companies in Malaysia. One of the sample selection criteria is that the family must hold at least 20.00% of a firm's equity directly or indirectly. This is adopted from the past studies in the context of Malaysia (Liew, Alfan and Devi 2014; Azizan and Ameer 2012; Amran and Che-Ahmad 2009) and other countries (Faccio and Lang 2002; Barontini and Bozzi 2011) that use 20.00% of equity as the cut-off poin t to define a family company. Besides, the 20.00% equity threshold is used by the Credit Suisse, a global leading financial institution, to establish the CS Global Family 900 Universe database (Credit Suisse 2015). Hence, 20.00% of the firm's equity is assumed to be sufficient to ensure the conclusive influence of a family over the business. Some of the listed family companies are excluded from the sample due to unavailability of annual reports and certain information of variables.

Second, the thesis uses a matched sample technique over the five-year period from 2010 to 2014. The same family companies in each period allow the assessment of the changes in executive remuneration, family participation on board, corporate governance mechanisms and institutional ownership pre- and post- the revision made on the Malaysian Code on Corporate Governance in 2012. These study periods are assumed to be

appropriate to examine whether the changes of those firm-specific factors significantly influence the executive remuneration in Malaysian listed family companies, particularly in an enhanced corporate governance landscape.

Third, this thesis utilises the annual reports of individual sample companies published in the Bursa Malaysia stock exchange to obtain the information of dependent variable – executive remuneration; independent variables – family participation on board, corporate governance mechanisms and institutional ownership; and control variables – family ownership and board size. DataStream database is used to obtain the financial data of control variables such as total assets, return on assets, firm leverage, and market value to book value of equity. The annual report is utilised as it is regarded as the main source of information which investors and stakeholders use to assess the company's standing, performance, transparency and accountability (Bursa Malaysia, Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants 2016). Besides, DataStream is a powerful and reliable financial time series database introduced by Thomsen Reuters.

Fourth, the measurement of executive remuneration is based on the information available in the annual reports. In this study, the executive remuneration comprises fees or salaries, bonuses, allowances, and other benefits. The measurement is assumed to capture the aggregate remuneration received by the executive directors, which the companies want to disclose to the external parties.

8.4.2 Limitations and Suggestions for Future Studies

Several limitations are identified in this thesis. First, the main limitation of this study is the exclusion of share option from the measurement of executive remuneration. This is due to the data unavailability; Malaysian public listed companies are not mandated by the Bursa Malaysia Listing Requirements to disclose the share options granted to directors. This study has conducted sensitivity test by increasing the executive remuneration, assuming the inclusion of share options will increase the executive remuneration by 10%, 20%, 30%, 40%, or 50%. The results of sensitivity test are identical to the main results,

affirming that the exclusion of share option from the measurement will not severely affect the regression results.

Second, the disclosure of aggregate remuneration instead of individual remuneration in the annual reports limits a more refined measurement of executive remuneration.

Third, this study focuses on Malaysian listed family companies over the five-year period from 2010 to 2014; the results potentially do not apply to other forms of organisation in other legal frameworks and economic environments, and may not be generalisable to other periods. Future studies could examine and compare the influence of corporate governance mechanisms on executive remuneration between family and non-family companies.

Fourth, the measurement of institutional investors disregards the types of institutions, for instance, mutual funds, insurance companies and pension funds. The objectives and monitoring role of different institutional investors may be different. Future studies could segregate the institutional investors according to their nature and type and examine whether these different types of institutions have different influence on the executive remuneration. Besides, Aggarwal et al. (2011) note that in the countries with weak shareholder protection, foreign institutional investors from the countries with stronger shareholder protection play a prevailing role in enhancing the corporate governance. Future studies could further segregate the foreign institutional investors into institutions: (i) from the countries with strong shareholder protection, and (ii) from the countries with weak shareholder protection.

Fifth, the empirical model does not include all conceivable variables. For instance, the composition of remuneration committee in Malaysian listed family companies comprises the independent non-executive directors and family directors. This study only examines the association between the independent non-executive directors on remuneration committee and executive remuneration as to investigate the governance role of the independent non-executive directors on remuneration committee. The insignificant influence of independent non-executive directors on remuneration committee may be due

to the involvement of family directors, which counterbalance their independent function. Future studies could examine the characteristics of remuneration committee in family companies to understand what factors causing an effective or ineffective remuneration committee, such as the proportion of family directors, the involvement of family CEO, and the involvement of family chairman.

Sixth, in Malaysia, the spheres of politics and races are inextricably intertwined (Carney and Child 2013). However, this study does not include the political tie variable due to the unavailability of such information disclosed in annual reports and the difficulty in identifying politically-connected companies. Future studies could consider to include the political tie as a factor in examining executive remuneration in the Malaysian context.

8.5 Contributions of Thesis

Notwithstanding the limitations, the contributions of this thesis are manifold. First, the main contribution of this study is providing longitudinal evidence by using five-year panel data from 2010 to 2014. The majority of related studies use a single-year to examine the executive remuneration (Yatim 2013; Abdullah 2006).

Second, different from other remuneration studies that based on the previous version of Malaysian Code on Corporate Governance – 2002 and 2007 versions (Yatim 2013; Abdullah 2006; Abdul-Wahab and Abdul-Rahman 2009), this study premises on its revised version in 2012, which enables the examination of the influence of corporate governance mechanisms on the executive remuneration in an enhanced corporate governance regime.

Third, this study contributes to the institutional ownership literature by segregating its measurement into domestic and foreign. The additional analyses in Chapter Seven report that the governance role of domestic and foreign institutional investors on executive remuneration differs. Precisely, domestic institutional investors exert a significant negative influence on the executive remuneration; indicating their effective governance role. On the other hand, foreign institutional shareholdings do not have any statistically

significant influence on the executive remuneration. Notwithstanding the insignificant association, the presence of foreign institutional investors dilutes the control of family shareholders over the remuneration arrangement – the statistically significant and positive association between family ownership and executive remuneration becomes statistically insignificant when there is the equity participation of foreign institutional investors. Essentially, this study reveals the different governance roles played by domestic and foreign institutional investors. Hence, this study calls for future studies to segregate the measurement of institutional ownership into domestic and foreign in order to yield more insight into how they differ in governing the investee companies.

Fourth, to the best of the researcher's knowledge, this is the first empirical study that examines the joint influence of different corporate governance mechanisms - board of directors and ownership structure, on the executive remuneration in Malaysian listed family companies. The majority of the remuneration studies typically assume that the corporate governance mechanisms operate independently (Conyon and Peck 1998; Dong and Ozkan 2008; Croci, Gonenc and Ozkan 2012; Yatim 2013). Agrawal and Knoeber (1996) suggest that the focus on a single corporate governance mechanism does not detect the interdependence of different mechanisms. This thesis finds a broader linkage of various governance mechanisms and their joint influence on the executive remuneration. For instance, the additional analyses in Chapter Seven report that when the average tenure of independent non-executive directors exceeds the nine years recommended by the revised Malaysian Code on Corporate Governance 2012, both domestic and foreign institutional investors become circumspect and monitor the executive remuneration. These findings indicate that the institutional investors doubt the governance function of the long-tenured independent non-executive directors; hence, they prefer to intervene in and monitor the investee companies themselves.

Fifth, through the analysis of listed family companies, this study provides empirical evidence on the influence of family participation on board, corporate governance mechanisms, and institutional ownership on the executive remuneration with respect to a market that, at the same time, is highly representative of East Asian companies'

characteristic of concentrated family ownership and significantly different from the markets of the United States and the United Kingdom.

8.6 Concluding Remarks

The longitudinal examination of executive remuneration has enhanced the understanding and knowledge of the Malaysian listed family companies' executive remuneration patterns. The findings show that the executive remuneration of Malaysian listed family companies increases significantly over the five-year period from 2010 to 2014. The revision of Malaysian Code of Corporate Governance in 2012 does not seem to be able to moderate the executive remuneration payout. The corporate governance mechanisms such as the remuneration committee and institutional investors are not effective monitors in executive remuneration. The significant positive influence of family ownership on the executive remuneration may signal the expropriation of minority shareholders by the controlling family shareholders. Type II agency conflict is evident in listed family companies in Malaysia.

Despite the limitations, this study contributes to the remuneration debate by providing empirical evidence to the Malaysian policy makers and regulators on the explanatory factors of executive remuneration in Malaysian listed family companies. It also depicts the need for continued research for enhancing the insights into executive remuneration of Malaysian listed family companies and other jurisdictions in Asian context.

From the global financial crisis to rampant corporate scandals involving the top executives and management, the importance of transparency and accountability in a corporate governance framework can be clearly highlighted. There is a relevant quote by Robert Ian Tricker, the father of corporate governance regarded by Sir Adrian Cadbury who is the author of the UK Corporate Governance Code:

'If management is about running the business,
governance is about seeing that it is run properly.'

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APPENDICES

Appendix 1.1 Percentages of listed family companies of each Western European country

Country	% of listed family companies
Austria	52.9%
Belgium	51.5%
Finland	48.8%
France	64.8%
Germany	64.6%
Ireland	24.6%
Italy	59.6%
Norway	38.6%
Portugal	60.3%
Spain	55.8%
Sweden	46.9%
Switzerland	48.1%
UK	23.7%

Source: Faccio and Lang (2002), based on 20% equity as the cut-off point

Appendix 1.2 Percentages of listed family companies of each East Asian country

Country	% of listed family companies in 1996	% of listed family companies in 2008
Indonesia	71.5%	50.0%
Malaysia	67.2%	44.7%
Hong Kong	66.7%	55.1%
Thailand	61.6%	33.3%
Singapore	55.4%	51.9%
Korea	48.4%	35.8%
Taiwan	48.2%	4.7%
Philippines	44.6%	76.5%
Japan	9.7%	6.0%

Source: Claessens, Djankov, and Lang (2000) and Carney and Child (2013), based on 20% equity as the cut-off point

Appendix 2.1: Four Founding Organisations of Minority Shareholder Watchdog Group

1. National Equity Corporation – PNB (Permodalan Nasional Berhad)

The PNB is established on 17 March 1978 as one of the instruments of the New Economic Policy to help rectify the economic imbalance in the Malaysian society. It has emerged as the country's premier investment institution, with a diversified portfolio of interests that include unit trusts, institutional property trusts, property management and asset management. Its investment products include the Amanah Saham Nasional (ASN), Amanah Saham Malaysia (ASM), Amanah Saham Gemilang (ASG), Amanah Saham Bumiputra (ASB), Amanah Saham Didik (ASD), and Amanah Saham 1Malaysia. PNB acts as the catalyst to the development and growth of the domestic unit trust and fund management industry. PNB maintains its position as the industry leader with units in circulation of its unit trust products (ASNB & AMB) amounted to more than 155 billion units, representing a market share of about 42% in 2012 (Permodalan Nasional Berhad 2012). While managing total funds of more than RM255 billion, the PNB has invested in more than 200 companies in Malaysia involved in various key economic sectors. In order to protect the investment of unit holders, the PNB continuously monitors the investee companies via in depth analysis and proactive engagement with the management and board of directors of these investee companies (Permodalan Nasional Berhad 2016).

2. Social Security Organisation – SOCSO (Pertubuhan Keselamatan Sosial)

The SOCSO is established in 1971 under the Human Resources Ministry to ensure and guarantee the timely and adequate provision of benefits in a socially just manner, and to promote occupational health and safety. In 2014, the SOCSO's investment fund amounted to RM22.537 billion, an incremental of RM1.471 billion (or 6.98%) from RM21.066 billion in 2013. In order to monitor the investees companies, the SOCSO attends the Annual General Meeting and Extra Ordinary Meetings of the investees companies and exercises its voting rights accordingly. SOCSO frequently participates in the seminars and workshops organised by the MSWG to gather information and exchange ideas. Besides, the SOCSO also actively cooperates with other minority shareholders to safeguard the common interests (Social Security Organisation 2014).

3. Armed Forces Fund Board – LTAT (Lembaga Tabung Angkatan Tentera)

The LTAT is established in August 1972 by an Act of Parliament. LTAT has two main objectives. The first is to provide retirement and other benefits to members of the other ranks in the Armed Forces (compulsory contributors) and to enable officers and mobilised members of the volunteer forces in the service to participate in a savings scheme. The second main objective is to promote socio-economic development and to provide welfare and other benefits for the retiring and retired personnel of the Armed Forces of Malaysia. As at 31 December 2014, LTAT's total investments amounted to RM8.3 billion, 7.8% increased from RM7.7 billion in the previous year, while the investment in shares listed on Bursa Malaysia via its eight external portfolio managers stood at RM182.0 million (Lembaga Tabung Angkatan Tentera 2014).

4. Pilgrimage Board – LTH (Lembaga Tabung Haji)

The Pilgrims Fund Corporation is established in November 1962 and commenced operation on September 30, 1963. The corporation later merged with Penang-based Pilgrimage Affairs Management Office in 1969 resulting in the formation of the Pilgrimage Management and Fund Board. The objectives of this entity are (i) to enable Muslims to save gradually to support their expenditure during pilgrimage and for other beneficial purposes; (ii) to enable Muslims to have active and effective participation in investment activities permissible in Islam through their savings; and (iii) to protect, safeguard interests and ensure the welfare of pilgrims during pilgrimage by providing various facilities and services. The name Pilgrimage Management and Fund Board has been changed to Pilgrimage Board effective from August 28, 1997. The role of LTH is to make investments in companies to provide contributors with returns on their investments. LTH invests in diversified portfolios that include industrial, services, plantation, and property investments. LTH employs subsidiaries to handle its portfolios, including TH Plantations Berhad, TH Properties Sdn Bhd, TH Technologies Sdn Bhd, TH Travel and Services Sdn Bhd, and TH Global Services Sdn Bhd.

Appendix 4.1: Profile of Directors

IR. ONG KOON ANN
Age 66, Malaysian
Group Managing Director

Ir. Ong Koon Ann was appointed to the Board of Directors of OKA Corporation Bhd on 21 February 2002. He is also the Managing Director of OKA Concrete Industries Sdn Bhd which was founded in 1981. Graduated from Bolton Institute of Technology in United Kingdom in 1970, he is a Registered Professional Engineer in Malaysia and Singapore and a Chartered Engineer by profession.

Ir. Ong Koon Ann is a member of the Institution of Civil Engineers and the Chartered Institution of Highways & Transportation, United Kingdom; Institution of Engineers Malaysia and Institution of Engineers Singapore.

Before Ir. Ong Koon Ann started OKA Concrete Industries Sdn Bhd, he had served as management consultant in a precast concrete company in 1974 to 1981. Prior to this, he had worked with consultant and construction companies in the United Kingdom dealing in highway and power station projects in Singapore and Malaysia.

Ir. Ong Koon Ann is Chairman of the Executives' Share Option Committee of the Company. He does not have any other directorships of public companies.

Ir. Ong Koon Ann is the spouse of Mdm Quah Seok Keng and father of Mr. Ong Choo Ian. Both Mdm. Quah Seok Keng and Mr. Ong Choo Ian are Executive Directors of the Company.

He has no conflict of interest and has had no convictions for any offences within the past ten years.

Source: 2010 annual report of OKA Corporation Bhd

Appendix 4.2: List of Substantial Shareholders

SUBSTANTIAL SHAREHOLDERS

Name of substantial Shareholder	Direct interest	Percentage (%)	Deemed interest	Percentage (%)
Ong Koon Ann	30,870,613	51.43	#4,188,912	6.98
Quah Seok Keng	2,624,912	4.37	#32,434,613	54.04

Deemed interest through their spouses and children's interests in the Company pursuant to Section 6A of the Companies Act, 1965.

Source: 2010 annual report of OKA Corporation Bhd

Appendix 4.3: Directors' Remuneration, Statement on Corporate Governance

The remuneration package of the Directors are as follows:-

i) Aggregate Remuneration

Remuneration	Executive Directors (RM)	Non-Executive Directors (RM)	Total (RM)
Fees	48,000	45,000	93,000
Directors' salary, other Emoluments and Benefits	3,655,529	-	3,655,529
Allowances	-	3,600	3,600

Source: 2010 annual report of PJ Development Holdings Berhad

Appendix 4.4: Domestic Institutional Ownership

LIST OF THIRTY (30) LARGEST REGISTERED SHAREHOLDERS (cont'd)

Name	No. of shares held	Percentage (%)#
9. Choo Wing Leong	3,262,981	2.139
10. Choo Wing Yew	3,258,157	2.136
11. Choo Wing Kin	3,001,779	1.968
12. Amanahraya Trustees Berhad MIDF Amanah Strategic Fund	2,480,000	1.626
13. Cartaban Nominees (Tempatan) Sdn Bhd MIDF Amanah Asset Nominees (Tempatan) Sdn Bhd for Lembaga Tabung Haji (JG283)	2,430,700	1.593
14. Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (PAR 1)	2,283,280	1.497
15. Amanahraya Trustees Berhad Public Islamic Opportunities Fund	2,171,200	1.423
16. Amanahraya Trustees Berhad MIDF Amanah Growth Fund	1,380,000	0.904
17. Amanahraya Trustees Berhad MIDF Amanah Islamic Fund	835,000	0.547

Legend: The domestic institutional investors and their respective shareholdings are highlighted in yellow.

Source: 2010 annual report of Notion Vtec Berhad

Appendix 4.5: Foreign Institutional Ownership

30 LARGEST SHAREHOLDERS (as per the Record of Depositors of the Company) (cont'd)

Name	No. of shares held	% of issued shares*
23. Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for CIMB-Principal Small Cap Fund (240218)	2,639,500	0.58
24. HSBC Nominees (Asing) Sdn Bhd Exempt An for the Bank of New York Mellon (Mellon Acct)	2,602,000	0.58
25. Citigroup Nominees (Asing) Sdn Bhd CBNY for DFA Emerging Markets Small Cap Series	2,565,500	0.57
26. RHB Nominees (Tempatan) Sdn Bhd Khor Chai Moi	2,448,000	0.54

Legend: The foreign institutional investors and their respective shareholdings are highlighted in purple.

Source: 2010 annual report of PJ Development Holdings Berhad

Appendix 5.1: Huynh-Feldt (H-F), Greenhouse-Geisser (G-G), and Box's conservative

```
Repeated variable: year
                                    Huynh-Feldt epsilon        =  0.4107
                                    Greenhouse-Geisser epsilon =  0.4086
                                    Box's conservative epsilon =  0.2500

                                                  ---------- Prob > F ----------
      Source |     df       F        Regular      H-F       G-G        Box
-------------+------------------------------------------------------------------
        year |      4     22.28      0.0000     0.0000    0.0000     0.0000
    Residual |   1104
-------------+------------------------------------------------------------------
```

Legend: Results generated from STATA software. The p-value of year is 0.00 under H-F, G-G and Box tests. This validates the result of one-way repeated measures ANOVA that the increase of executive remuneration over the five-year period is statistically significant.

Appendix 5.2: Pearson Correlation Matrix

	EXREM	*FD*	*ID*	*IDAT*	*IDRC*	*DIS*	*FIS*	*FO*	*BS*	*TA*	*LEV*	*ROA(-1)*	*MV*
EXREM	1												
FD	0.0913***	1											
ID	-0.0787***	-0.3374***	1										
IDT	0.0415	0.0294	-0.049*	1									
IDRC	-0.1175***	-0.0268	0.2448***	-0.1029***	1								
DIS	0.1192***	-0.1409***	-0.0634**	0.1313***	-0.1148***	1							
FIS	0.1714***	-0.0945***	0.0216	0.0629**	-0.0118	0.0051	1						
FO	0.0433	0.2299***	-0.0719***	-0.0239	0.0115	-0.3035***	-0.1514***	1					
BS	0.2642***	0.0405	-0.3846***	0.0901***	-0.0626**	0.0401	0.1214***	0.0412	1				
TA	0.6961***	0.0856***	-0.0645**	0.1096***	-0.2183***	0.0962***	0.2438***	0.0613**	0.3086***	1			
LEV	0.1308***	-0.0327	-0.0057	-0.0705***	-0.0404	-0.018	-0.0959***	-0.1386***	0.0573**	0.1592***	1		
ROA(-1)	0.0935***	0.0117	-0.0439	0.0097	-0.0457*	0.0498**	0.1071***	0.1361***	0.1024***	0.0042	-0.2521***	1	
MV	0.2332***	-0.0703*	-0.0241	0.0305	-0.0457*	0.1358***	0.1322***	0.0571**	0.1255***	0.1161***	-0.0164	0.4296***	1

Legend: Pearson correlation matrix shows the correlation coefficients for all the continuous explanatory and control variables and the dependent variable. ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively.

Appendix 6.1: Summary of different estimators

Variable	Pooled OLS	FEM	REM	REM with cluster-robust standard errors estimation
FD	0.1919 *1.03* (0.15)	0.1618 *0.61* (0.27)	0.1780 *0.81* (0.21)	0.1780 *0.62* (0.27)
FCEO	0.1179* *1.53* (0.06*)	0.0630 *0.77* (0.22)	0.0768 *1.04* (0.15)	0.0768 *0.68* (0.25)
ID	-0.1412 *-0.59* (0.28)	-0.2105 *(0.88* (0.19)	-0.2794 *-1.28* (0.10*)	-0.2794 *-0.90* (0.18)
IDT	-0.0139 *-2.48* (0.01***)	0.0015 *0.28* (0.39)	-0.0009 *-0.18* (0.48)	-0.0009 *-0.18* (0.43)
RD	0.1846 *3.60* (0.00***)	0.0432 *0.75* (0.23)	0.0777 *1.51* (0.07*)	0.0777 *1.56* (0.06*)
IDRC	0.1571 *1.61* (0.05**)	-0.0250 *-0.21* (0.42)	0.0244 *0.23* (0.41)	0.0244 *0.24* (0.41)
DIS	-0.0657 *-0.28* (0.39)	-0.3306 *-1.1* (0.14)	-0.2939 *-1.14* (0.13)	-0.2939 *-1.18* (0.12)
FIS	-0.4991 *-1.44* (0.08*)	-0.0471 *-0.1* (0.46)	-0.2163 -0.55 (0.29)	-0.2163 *-0.62* (0.27)
YEAR	0.1306 *3.03* (0.00***)	0.1125 *5.48* (0.00***)	0.1180 *6.1* (0.00***)	0.1180 *5.28* (0.00***)
FO	0.1039 *0.59* (0.28)	0.7433 *2.38* (0.01***)	0.4846 *2.04* (0.02**)	0.4846 *1.65* (0.05**)
BS	0.1249 *9.00* (0.00***)	0.0610 *3.76* (0.00***)	0.0748 *5.33* (0.00***)	0.0748 *4.64* (0.00***)
LNTA	0.3818 *17.32* (0.00***)	0.4432*** *8.96* (0.00***)	0.4158 *13.45* (0.00***)	0.4158 *11.53* (0.00***)
LEV	0.0185 *0.15*	-0.2587 *-1.87*	-0.2117 *-1.73*	-0.2117 *-1.37*

	(0.44)	(0.03**)	(0.04**)	(0.09*)
ROA(-1)	0.0131 *3.81* (0.00***)	0.0020 *0.94* (0.17)	0.0031 *1.51* (0.07*)	0.0031 *1.26* (0.10*)
MV	0.0978*** *3.82* (0.00***)	0.0520 *2.23* (0.01***)	0.0655 *3.04* (0.00***)	0.0655 *2.77* (0.00***)
_cons	8.2044 *28.27* (0.00***)	7.9284 *11.75* (0.00***)	8.2556 *19.55* (0.00***)	8.2556 *15.57* (0.00***)
Overall R^2	0.3886***	0.3555***	0.3750***	0.3720***
F test	F(278,1101) = 23.98, p-value: 0.0000			
Breush-Pagan Lagrange Multiplier test	chi2(1) = 1824.15, p-value: 0.0000			
Hausman specific test	chi2(15) = 21.65, p-value: 0.1173			

Legend: Coefficient is bold. t- statistic is italicised. p-value is in the parenthesis. Associations ***, ** and * denote 0.01, 0.05 and 0.10 significance level respectively. One-tailed probabilities are used for the tests of the variables since the associated hypotheses are directional.